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STRATEGY FORMATION AND SUBSIDIARY PERFORMANCE:
THE MODERATING EFFECT OF CULTURAL DIFFERENCES

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MIGUEL NONAKA

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LIST OF ABBREVIATIONS

CD	Cultural distance
CEO	Chief executive officer
DSE	Decentralized strategy emergence
DMAOP	Decision-making authority over daily operations granted the subsidiary by the parent firm
DMA SP	Decision-making authority over strategic plans granted the subsidiary by the parent firm
EMC	Entry mode choice
FCPS	Frequency of contact between the parent and subsidiary firms
IND	Individualism/Collectivism
LTO	Long term orientation
MAS	Masculinity/Femininity
MNC	Multinational
NCD	National culture distance
NE	Number of employees
NEC	Number of executives from the subsidiary in contact with the parent firm.
NEX	Number of expatriates working in managerial charges in the subsidiary
OCD	Organizational culture distance
PD	Power distance
PO	Participation ownership
ROI	Return on investment
SOL	Subsidiary's ownership level.
SP	Subsidiary performance
SPP	Strategic planning process
SZ	Subsidiary size
TO	Time operation
UA	Uncertainty avoidance
VP	Vice president

ABSTRACT

In the literature on strategy, it is recognized that there are two basic tendencies, which oftentimes overlap, at the root of strategy formation: planning strategies and emergent strategies, and that all strategies can be located on this scale, according to their combination of the following dimensions: leadership intentions, central control and environment (Mintzberg & Waters, 1985). The complementarity of these two strategy-making modes was demonstrated by Andersen (2004), who empirically tested their positive effects on organizational performance, under two environmental conditions: internationalization and turbulence. It is also recognized that one of the most important sources of impediments to the success of multinational firms and its subsidiaries is culture differences (Miroshnik, 2002). The reason for this is that an increase in uncertainty caused by cultural distance influences on the choice of the strategy-making mode (Peng, 2002). This explanation is the focus of this dissertation, which sets out to better understand the influence of the cultural environment on the strategy formation process. This study examines the influence of cultural differences between subsidiary and parent firm (at the national and organizational level) in the relationship between the strategy formation process (planning and emergent processes) and organizational performance.

The sample population for this research includes foreign subsidiaries of English, French, German, Japanese and United States multinationals operating on Canadian soil. The dissertation data includes data gathered from qualitative sources, such as personal interviews conducted with CEOs and Vice Presidents who have the closest contact with their headquarters. In addition, a survey conducted to top managers engaged in the strategy-making of the subsidiary firm, and who are frequently in contact with the parent firm, in order to understand the perception of organizational culture differences, strategy formation and performance data.

Four established measures provide the major independent variables used for statistical analysis. They include national culture distance secondary data based on Hofstede's (2001) country indices as applied in Kogut & Singh's (1988) formula for national cultural distance. The others three independent variables and the dependent variable use primary data gathered by a survey: the organizational culture distance measure using the scale of Hofstede (1990), the emergent and planning strategic process measures using Andersen's (2004) scale and a scale which measures the subjective performance of the subsidiary. The results were analysed using a hierarchical regression analysis in order to test the moderator effect. Also the variables were analysed using the Spearman correlation index and regression linear.

The results provided support for the hypothesis which proposes the relationship between organizational culture distance and subsidiary performance; the research also found that only organizational culture distance has a significant effect on performance, while the influence of national culture distance on performance is not significant. Exploratory statistics show some inroad regarding the moderating influence of organizational culture distance on the relationship between decentralized strategy emergence and subsidiary performance, for large subsidiaries. However, no support is found for the notion that national culture distance

influences the relationship between strategy formation and performance. Further findings imply the study of another factor which can influence the strategy formation and the subsidiary's performance, inside the firm, such as the degree of control that the parent exerts on the subsidiary.

Keywords

Strategy; strategy formation; emergent strategy; planning strategy; organizational culture distance; national culture distance; performance; institutional theory; multinational; subsidiary.

RÉSUMÉ

Dans la littérature sur la stratégie, il est reconnu qu'il y a deux tendances de base, qui souvent se chevauchent, à la racine de l'élaboration des stratégies : des stratégies planifiées et des stratégies émergentes, et que toutes les stratégies peuvent se retrouver sur cette échelle, selon leur combinaison des dimensions suivantes : l'intention des dirigeants, le contrôle central et l'environnement (Mintzberg & Waters, 1985). La complémentarité de ces deux méthodes d'élaboration de stratégies a été démontrée par Anderson (2004), qui a empiriquement testé leurs effets positifs sur la performance organisationnelle, dans deux conditions environnementales : l'internationalisation et la turbulence. Il est également reconnu qu'une des sources les plus importantes des empêchements au succès des firmes multinationales et leurs filiales est la différence culturelle (Miroshnik, 2002). La raison pour expliquer ceci est qu'une augmentation de l'incertitude causée par la distance culturelle influence sur le choix du mode d'élaboration des stratégies (Peng, 2002). Cette explication est le focus de cette dissertation, dont le point de départ est de mieux comprendre l'influence de l'environnement culturel sur le processus d'élaboration des stratégies. Cette étude examine l'influence des différences culturelles entre les filiales et leurs sociétés mères (aux niveaux national et organisationnel) dans la relation entre le processus d'élaboration de stratégies (processus planifié et émergent) et la performance organisationnelle.

L'échantillon de population dans le cadre de cette recherche inclut des filiales étrangères de multinationales anglaises, françaises, allemandes, japonaises et états-unienues ayant des activités sur le sol canadien. Les données de cette dissertation incluent des données cueillies de sources qualitatives, telles des entrevues personnelles auprès des PDG et vice-présidents qui ont le plus étroit contact avec le siège social. De plus, une enquête fut menée auprès des hauts dirigeants impliqués dans l'élaboration des stratégies de la filiale, et qui sont fréquemment en contact avec la société mère, afin de comprendre la perception des différences organisationnelles des cultures, de l'élaboration des stratégies et de la performance des données.

Quatre mesures établies fournissent les principales variables indépendantes utilisées pour l'analyse statistique. Elles incluent les données secondaires sur la distance de la culture nationale basées sur les indices de pays de Hofstede (2001) appliqués dans l'équation de Kogut et Singh (1988) pour la distance de la culture nationale. Les trois autres variables indépendantes et la variable dépendante utilisent les données primaires cueillies par voie d'enquête : la mesure de la distance culturelle de l'organisation selon l'échelle de Hofstede (1990), les mesures découlant des processus de stratégies planifiées et émergentes selon l'échelle de Anderson (2004), et une échelle qui mesure la performance subjective de la filiale. Les résultats ont été analysés en utilisant une analyse régressive hiérarchique afin de tester l'effet modérateur. Aussi, les variables ont été analysées utilisant l'index de corrélation et de régression linéaire de Spearman.

Les résultats fournis appuient l'hypothèse qui propose la relation entre la distance culturelle organisationnelle et la performance de la filiale; la recherche a aussi trouvé que seule la distance organisationnelle culturelle a un effet significatif sur la performance, alors que l'influence de la distance de la culture nationale sur la performance n'est pas significative. Les statistiques exploratoires font une percée par rapport à l'influence modératrice de la distance culturelle organisationnelle sur la relation entre la stratégie décentralisée émergente et la performance de la filiale, pour les grandes filiales. Cependant, aucun appui n'a été recensé pour la notion que la distance culturelle nationale influence la relation entre l'élaboration de la stratégie et la performance. D'autres recherches impliquent l'étude d'un autre facteur qui peut influencer l'élaboration de la stratégie et la performance de la filiale, à l'intérieur de la firme, tel le degré de contrôle exercé par les sociétés mères sur la filiale.

Mots-clés

Stratégie; formation des stratégies, stratégie émergente; stratégie planifiée; distance culturelle organisationnelle; distance culturelle nationale; performance; théorie institutionnelle; multinational; filiale.

CHAPTER I

INTRODUCTION

The purpose of this study is to propose and test a theoretical framework linking strategy-making modes and cultural distance, to organizational performance. The framework focuses first of all on the relationship between the two strategy-making modes and organizational performance (Andersen, 2004); cultural distance is considered to be a moderate variable with a relative influence on the relationship between the strategy-making mode and the firm's performance. This principle is based on Peng's (2002) statement that cultural distance increases the uncertainty, which in turn can influence on the choice of the strategy-making mode. The theoretical framework also considers the direct influence of the cultural distance on the organizational performance. This relationship is considered in terms of moral legitimacy, which propose that closer values and norms obtain a positive evaluation of the subsidiary (Tian and Gao, 2006) and cognitive legitimacy which facilitates the acceptance and understanding of the subsidiary firm (Tian and Gao, 2006).

The unit of study is the subsidiary firm which affronts several risky challenges with respect to the firm's profitability such as diversification of the dimensions of the national market, quality of the labour resources, natural resources, political divergences, geographical distances, cultural differences, etc. From these factors, we chose to study cultural difference which is, according to Miroshnik (2002), the first dominant factor accounting for the failures and problems encountered in multinational business.

Our choice of the subsidiary firm as a subject of study is sustained by the continually increasing importance of subsidiary firms in global business. There are some 790,000 foreign subsidiaries of about 79,000 parent firms which contributed approximately \$31 trillion USD to world sales in 2007, while the number of employees in foreign affiliates reached 82 million (UNCTAD, 2008) and the value-added activity (gross product) of foreign affiliates worldwide accounted for 11 % of global gross product in 2007.

A subsidiary faces a double challenge as on one side it has to comply with local practices and norms, but it also has to comply with its parent firm in order to gain access to knowledge, experience, resources, etc. Regarding the relationship between parent and subsidiary firms, there are some difficulties which affect the effective communication between the two, and one of the sources of this problem is the cultural distance between them.

The results of this dissertation contribute to the multinational literature by providing: an empirical explanation of the importance of the strategy-making modes on the performance of subsidiary firms, when studied from a cultural environment perspective.

1.1 STATEMENT OF THE PROBLEM

The objective of this dissertation is to further increase our understanding of how the cultural differences between the foreign parent and Canadian subsidiary firms influence on the relationship between the strategy-making mode and the performance of the subsidiary firm.

This problem is important because it involves the performance of the strategy-making modes of subsidiary firms which represent 11 % of the gross global product (UNCTAD, 2008) and 57.6 % of the foreign investment stock in Canada (Cameron and Sabuhoro, 2008). Each year new subsidiaries from developed countries are incorporated into Canadian industries, but also there are new subsidiaries from developing countries culturally different from Canada, which assures that this problem is not only continuous but increasing in importance.

The cultural differences between the subsidiary and the parent firms create problems for both firms, but the subsidiary because of its size and its nature of being a foreign firm in a host country is more affected. For the subsidiary it is important to establish a good level of contact with its parent firm in order to receive the transfer of knowledge, experience and strategic ideas, but the cultural differences between the two firms affect the natural communications between them (Cui *et al.*, 2006). These cultural differences are part of the subsidiary's cultural environment and affect the processes in the subsidiary firm, such as the

performance of the strategy-making modes, thereby rendering difficult the transmission and comprehension of strategic plans.

To accomplish the analysis of this problem, we propose a theoretical model (presented in Figure 1.1) which hypothesizes the influence of cultural distance on the interaction between strategy-making modes and organizational performance. This last relationship has already been demonstrated by Andersen (2004) but not in a cultural context, as he used two other environmental variables: turbulence and technology. One of the reasons we analyze that relationship in a cultural context is because cultural differences are considered to be the first source of problems in multinational firms (Miroshnik, 2002).

Within the framework of this study, performance differences within a firm are explained by the variations in resources and capabilities, which can be caused by the cultural distance of the subsidiary with the national and organizational culture of the parent firm. In effect, a factor which can help to reduce costs and increase competitiveness is the close cultural distance between the subsidiary and parent firms as this can help to stabilize the subsidiary's source of resources, and increase the capabilities of the subsidiary firm.

1.2 THEORETICAL CONCERNS

The theoretical model presented in Figure 1 suggests four basic propositions, which are translated into hypotheses that will be tested based on the data collected from the subsidiaries of foreign firms operating in Canada. The propositions are as follow:

1. Decentralized strategic emergence is positively related to a subsidiary's performance in a subsidiary-parent firm close cultural environment.

This proposition is developed, by studying the moderate effects of cultural environment factors such as national culture distance and organizational culture distance on the relationship between decentralised strategy emergence and performance. According to Cui *et al.* (2006), these cultural environment factors influence the technology transfer from the parent to subsidiary firms. where the transfer of technology is considered to be a strategic

initiative. Therefore, cultural environment factors affect the influence of strategic initiatives, and ultimately the performance.

2. Planning the strategic process leads to desirable outcomes in a subsidiary-parent firm close cultural environment.

The parent firm has a global strategic plan, and each subsidiary has its own local plan, which reflects the worldwide strategy into local requirements. The relationship between strategy planning and culture is highlighted by Herbert (1999), who states that strategy planning is inherently culture-bound because it is built on culturally-derived assumptions which make the transfer of a strategic plan difficult from one culture to another.

3. Close cultural distance leads to desirable outcomes.

Pothukuchi *et al.* (2002) proved the negative effects of national and organizational culture distances on efficiency and competitiveness in an international joint venture. Cui *et al.* (2006) analyzed the cultural environment represented by cultural distance on two levels, organizational and national, which negatively influence effectiveness of communications and information sharing between the parent firm and its subsidiaries.

4. The strategy planning process and decentralized strategy emergence lead to desirable outcomes in a subsidiary-parent firm close cultural environment.

Andersen (2004) asserts that these two strategy-making modes are complementary. He demonstrated that the interaction between strategy planning and decentralized strategy emergence has a positive influence on the performance of firms engaged in international markets. According to him, these firms are more sensitive to exogenous environmental factors. We studied this interaction in subsidiary firms, which are more sensitive to variations of cultural environment factors, such as: national and organizational culture distance.

Figure 1 : Integrative Strategy Formation Model in a Culturally Distant Context

1.3 FOREIGN SUBSIDIARY FIRMS IN CANADA

We focus on the subsidiary literature which analyses the situation of Canada as the host country with foreign firms located in it. The lifting of trade barriers during the 1970s and 1980s caused the subsidiaries to move from the small-scale replica model encouraged by the protectionist model proposed by the government, to other roles more oriented to the world market and characterized by high value-added specialist roles, and also to the other roles oriented to the local market characterized by the low value-added generalist (Birkinshaw and Hood, 1997).

The Free Trade Agreement signed with the United States and its geographic nearness to Canada favour the formation of a large population of subsidiaries from that country; they represent 57.6 % of Canada's direct foreign investment stock. Other important countries with direct foreign investment stock in Canada are the United Kingdom with 10.9 %, the Netherlands 6.3 %, France 3.5 %, Switzerland 2.8 %, Japan 2.7 %, Brazil 2.6 % and Germany with 2.1 % (Cameron & Sabuhoro, 2008). Subsidiary firms tend to be located in Central Canada, especially in Ontario, where more than half of the foreign subsidiaries in Canada are located; more precisely, they account for 53 % of all the revenues earned by foreign subsidiaries in Canada, followed by Quebec with 17 %, Alberta 12 % and British Columbia 11 %. 38.6 % of the all subsidiary firms are dedicated to manufacturing industries, 16.3 % to mining and gas extraction, 11.4 % to oil and gas extraction and support, and 13.5 % to finance and insurance.

The main activities of these foreign-owned subsidiaries in Canada are focused on high value-added manufacturing and resource-based sectors, such as transportation equipment (motor vehicles, airplanes), natural resources (oil, mining) and electrical products. Cameron (1998) analysed data for foreign subsidiaries of four countries (United States, Germany, England and Japan); he found that subsidiaries are very important to the external Canadian trading which is reflected by the fact that these subsidiaries of parent firms from only four

countries are responsible for 44 % of exports and almost 50 % of imports, although only 2 % of the exporters are foreign subsidiaries.

One of the strategic alternatives available to the foreign subsidiary in Canada is to enter the global market, to put itself in a position to enjoy a privileged position within the multinational network, thereby enabling it to access knowledge on product characteristics, state-of-the-art technology and market information. If the subsidiary doesn't have the capacity to create a cost competitive plant in Canada, it can become a marketing satellite, importing from other subsidiaries and selling. Another alternative for the subsidiary is to tailor its products and to focus on Canadian customers; Canada's particular and harsh weather opens up, for example, an opportunity in the manufacturing sector involving mining equipment. Thus, subsidiaries exploit the Canadian requirement for equipment which can endure the cold and open-pit conditions (White and Poynter, 1984).

Canada is a developed and industrialized country, rich in natural resources such as oil, minerals, fish and wood. For this reason, the goals set for subsidiaries in Canada include the goals related to industrialized countries (e.g., knowledge acquisition, learning, strengthening of corporate image) but also other goals which mostly relate to subsidiaries in developing countries, such as: raw materials and natural resources (Luo, 2003). For the other side, Delany (2000) considers the fact that Canada is highly dependent on the activities of foreign-owned subsidiaries, which influence in the country the expectation that the subsidiary will develop according to the national interests of the Canadian economy.

1.4 STRUCTURE OF THE DISSERTATION

This dissertation is divided into 7 chapters. The first chapter outlines the proposed research, the model to be tested, and briefly outlines the situation of foreign subsidiaries in Canada. Chapter two is a review of the relevant background literature in four substantive spheres, namely: culture, strategy, performance and institutional theory. Chapter three discusses the research model, especially the proposed hypotheses. Chapter four discusses the evaluation of the proposed model, through which this study proposes a research method, including research design, evaluation of variables, data sources and survey instruments.

Chapter five presents our observations and findings from a qualitative study of eight interviews with CEOs of subsidiary firms. Chapter six presents the results of the surveys, first describing the primary data, followed by a statistical analysis, the presentation of the findings and a discussion of the hypotheses. Finally, chapter seven includes our conclusions, which are divided up between key findings, secondary findings, contributions to the theory, limits of this study and recommendations for future research.

CHAPTER II

LITERATURE REVIEW

2.1 CULTURE

Culture is a central concept of anthropology and social sciences, introduced in management as a necessity to understand the social experience inside an organization. The number of different definitions which the authors have given of culture gives us an idea of the complexity of this construct. Each school of thought has its own definition of culture, even according to geographic precedence. Although culture is a very controversial definition in anthropology, we present here one of the most common definitions, one which presents culture as an integrated system of shared artefacts, behaviours and ideas which are characteristics of a society (Hiebert, 1976, p. 25).

Swartz (2001) considers that culture has two universally accepted characteristics intrinsic to its definition: being learned and being shared. The first characteristic makes reference to the intangible nature of culture; its meaning is something which is in our minds while something learned is something taught. There is thus a cultural transfer, which is a very important subject in multinational business, where the emigration of people from different cultures causes movements of diffusion and assimilation of culture. In the second characteristic, the mention of the word 'shared' is synonymous to several people or cultural groups, which leads us to the differential approach which considers culture as a group of mental activities accepted more in certain societies than in others (Lévy-Bruhl, 1960).

D'Andrade (2001) suggests, in order to bring precision to the definition of culture, that in the modern anthropological paradigm, culture becomes a purely mental process: meanings, ideas, beliefs and knowledge. For him, physical activities and objects are not culture. Culture as a purely mental and psychological phenomenon is constrained by psychological processes like learning and cognition, as a cognitive frame of reference and myths.

For Jordan (1995) culture is a system of symbols with meanings created arbitrarily by its users. The symbols can be objects, gestures, logos, songs, etc.; the meanings are stored in our minds as cognitive frames which can be transmitted to other members of the group. In essence, what we transmit to our partners are the cognitive frames and not the physical ones. Lastly, a characteristic which is very important to multinational business is that culture is adaptive, which means that it can change in relation to its environment in order to survive. This is the key to the survival of culture, which depends on activities of subsistence, like in the case of the habitants of the rough lands of the Andes who have adapted their culture to the difficult environment.

This research uses Hofstede's (1980) definition of culture, which more adapted to the subject of his research, cultural differences. Hofstede defines culture as the collective program of the spirit which distinguishes the members of a category of people with respect to another one.

2.2 CULTURAL DIMENSIONS

Researchers agree that culture is a multidimensional construct. For D'Andrade (2001), the dimensions are purely mental, as are meanings, ideas, beliefs and knowledge. For Hofstede and Hofstede (2005), the dimensions are symbols, heroes, rituals and values; they also consider that culture is a mental subject, like mental programs with software to link them together, and that software is the culture. They propose a determinist approach to culture in considering that the mental programs vary according to the environment in which they were developed. For Hofstede (1980), the manifestation of culture is covered by the following four terms.

2.2.1 Symbols

The particularity of symbols is that their meaning can only be recognized by the culture of the members. The symbols are the language, objects, pictures, which are embedded in the

collective memory of the people, and have a meaning shared by everyone. People from different cultures can interpret the same physical object differently.

2.2.2 Heroes

They represent the persons who serve as models for the behaviour of the members, because their psychological attributes are highly valued by the members of the society

2.2.3 Rituals

Collective activities are considered essential. At the organizational level, they represent meetings, speeches and behaviours. The meaning of a ritual is found in our cultural framework, so people from different cultures attribute different meanings to the same physical act.

2.2.4 Values

According to Hofstede (1980, p. 8), values are “broad tendencies to prefer certain states of affairs over others”. Values represent the core of the culture, resting in our subconscious; this is also the aspect of culture which is most difficult to change. The values are not physical objects, people or ceremonies; they are invisible, inside the minds of the people.

The four cultural dimensions affect both national and organizational culture. For example Hofstede (1991) states that values are at the heart of national culture differences, while symbols, heroes and rituals are related to organizational culture differences.

2.3 ORGANIZATIONAL CULTURE

Jordan (1995) considers that the difference between the anthropological and organizational paradigms studied makes it difficult to use the anthropological literature for organizational analysis. The reason is that when the concept was introduced for the first time, it was necessary to redefine it and to add one or more characteristics in order to explain the

structure or the goals. It was Pettigrew (1979, p. 572) who, based on a longitudinal process approach which explores organization as a continual system, ascertained the development and emergence of organizational culture which he considers to be “the amalgam of beliefs, ideology, language, ritual, and myth”.

Smircich (1983) and Garibaldi (2006) distinguish two other approaches to organizational culture. The first considers culture as something the organization is; this approach is similar to Garibaldi's (2006) symbolic view which considers culture as a metaphor for conceptualizing organizations. The second approach considers culture as a variable to study the organizational level; this approach is called the functionalist approach and it is used by Peters and Waterman (1982), who consider culture as the source of the success of firms, they also predict the importance of strong culture for the success of the firm.

From a normative perspective, Schein (1992, p. 12) tackled the subject from the point of view of “the pattern of basic assumptions”. For him organizational culture is the fruit of the manager's vision, that it is his ideas, convictions and beliefs based on past experiences, which are transmitted to the other employees. Organizational culture is the set of postulates which come forth after the integration and assimilation of the ideas, convictions and beliefs to the employees. Wilkins and Gibb (1988, p. 523) consider organizational culture as “socially acquired and shared knowledge that is embodied in specific and general organizational frames of reference”. It is necessary to highlight the cyclic character of these purposes, the melting point of the knowledge forms the frame of reference, but this frame of reference is in charge of evaluating all the new knowledge for its incorporation into the existent knowledge.

From a comparative approach, Hofstede (1991) argues that the core of organizational culture is composed of practices shared by its members, as if we apply a comparison between firms, they will differ in their practices, which are the most visible aspects of culture and thus are manageable by the managers. Adler and Jelinek (1986) place the organizational culture of the firms on a scale ranging from determinism to free will. They argue that the fundamental support for the organization is free will, but that the organization accepts small quantities of determinism imposed by the organization's culture. They comment on the cross-cultural

approach, mentioning the importance of cultural differences which accept a greater degree of determinism than the organizational culture concept. This perspective accepts the managers and employees as fundamentally conditioned by their national culture.

In the field of international business, Miroshnik (2002, p. 537) states that the most critical factor accounting for the failures and problems in multinational business is culture. With respect to the MNC, she states that it is necessary to refer to the variations in culture. She also says that organizational culture is a combination of micro values, macro values and “meso” values, and that the organizational culture of the subsidiary varies from country to country in relation to the differences in national cultures. The structure of a national culture includes the micro values which are, for example, the sense of belonging, having fun, entertaining warm relationships, security, respect, excitement, enjoyment, self-fulfillment, being well respected and having a sense of accomplishment. The combination of micro and macro values could produce meso values which are specific to a country, as codes of behaviour, which influence the members of the society.

On the other side, the organizational culture of a big and geographically dispersed organization like the MNC may have many different cultures which can remain stable but not static, Miroshnik (2002). Effectively, the stability of a particular culture is a condition of its survival, but this stability doesn't mean that the culture is static, but rather that it evolves according to the process of socialization which forms the new frames of reference. Both static and instable cultures are condemned to disappear; the first for its inability to assimilate environmental changes, and the second for the disarticulation in small subcultures which are unable to socialize between themselves.

Shrivastava (1985) considers that organizational culture can be described by a set of cultural products through which it is perpetuated and stabilized. He considers four categories of cultural products: myths and sagas, language systems and metaphors, symbolism, ceremony and rituals, value systems and behaviour norms. Follows is a description of Shrivastava's (1985) cultural products.

2.3.1 Myths and Sagas

This stage of problem formulation is characterized by social interactions as managers informally and indirectly scan for information about the problems, trying to clarify their nature. In this case, the myth provides an abundant source of information easily interpreted. The first source of these myths comes from within the same firm, but they can also come from the parent firm which is a larger and more experienced firm, able to supply the myths based on its own experience. The age of the subsidiary holds an important role because a more recently constituted one will be more easily influenced than an older one.

The social nature of the myths leads us to relate their creation to the context of the surroundings and to the national culture of the subsidiary. In other words, the myth is influenced by the national culture. In the subsidiary, there are the myths which come from the parent firm and which try to impose themselves on the subsidiary's organization through socialization, which implies concurrency with the native myths present in the minds of the local employees. There is a necessity to correctly formulate the collaboration of the problems and needs of both the native and parent myths. The first contributes to the knowledge of the native problematic and the second to the technology and experience. The contribution to the strategy formation in the subsidiary firm will depend on the success of the socialization between the myths and its capacity to develop a powerful myth able to apply the experience and technology of the parent firm to the particular problems and existing knowledge of the subsidiary firm.

2.3.2 Language Systems and Metaphors

The depth of understanding which is required for the analysis of alternative solutions makes it necessary to use specialized language and sophisticated metaphors. The parent firm can transfer its language systems and metaphors already developed in its strategy and management processes. The more sophisticated and developed language of the parent firm renders it attractive to the managers because it allows them to learn new technologies. However, it could be rejected on the basis of being too complex and not adapted to the subsidiary's reality. In the case of the metaphor, the influence of the parent firm is more

difficult to assess because the metaphor provides more accessible and known objects, and the metaphor from the parent firm is difficult to adapt to the subsidiary, because it has its basis in another context.

2.3.3 Symbolism, Rituals and Ceremonies

Wong (1996), in analyzing a case study of a MNC subsidiary, found that the symbols from the parent firm produce an influence but only on the base-level employees, not on the managers. Symbols are used as a means to promote the acceptance and understanding of the strategic issues, are easy and quick ways to convey the strategic message to the employees. Therefore, the difference between the symbols of the parent and subsidiary firms could be a source of difficulty at the diffusion and acceptance level of strategic issues and could affect teamwork. The large parent firm may have ritualized procedures for developing strategic plans, but the subsidiary firm is small and requires something less complicated and more flexible. Moreover, the parent firm is the oldest and its ritualized procedures are legitimized through years of usage; contrarily, the subsidiary is a relatively younger firm which is in the process of legitimizing its own procedures. The parent firm can supply advanced and sophisticated procedures but these have to be implemented in the subsidiary in respecting its differences with the parent firm.

2.3.4 Value Systems and Behavioural Norms

The influence on the value systems of the subsidiary managers is necessarily a long process of learning and interaction. The influence of the parent firm in the value system of the manager begins even before his hiring, in searching for flexibility and a close resemblance to the parent firm's value system. Another way is to select expatriates who share the same value framework as the parent firm. The value system influences on the choice of strategy, but the final decision is generally taken by the managers, who are normally expatriates or natives socialized in the culture of the parent firm. This selection reduces the risk that the managers will take decisions contrary to the values of the parent firm.

2.4 NATIONAL CULTURE

Hofstede (1991, p. 5) considers that national culture is “the collective programming of the mind which distinguishes the members of one group or category from another”. His idea is that the national individual values, beliefs, assumptions, behaviours, attitudes and expectations are shaped into a mental cultural programming.

He reaches this conclusion when studying national culture through a survey of 116,000 IBM employees working in 40 subsidiaries around the world. Analyzing his extensive database, Hofstede (1980) discovered four dimensions of national culture: individualism, power distance, uncertainty avoidance and masculinity. Individualism is the tendency of individuals to focus on their own needs and to solve by themselves their problems. Power distance, measures the acceptance by individuals of the inequality in relationships; uncertainty avoidance is the tolerance of ambiguity; and masculinity is the tendency to accord more value to material goods rather than to relationships.

The measure of Hofstede’s dimensions of the national culture is that it continues relatively stable, allowing researchers to define the national characteristics of the countries based on his model. Accepting the continuity of the Hofstede measures is also accepting the premise that while cultures tend to modernize, they continue with the divergences in their attitudes (Herbig and Miller, 1992). So it can be said that globalization affects culture so slowly that we can consider that the divergences between national cultures continue, and that they are the hardcore values of the culture and most difficult to change.

2.4.1 Influence of National Culture over Organizational Culture

Hofstede’s (1980) research proves that the organizational culture of the multinational does not eliminate nor reduce the national culture. Although all the subsidiaries share the same organizational culture, they have their own national culture, which is confirmed by the survey performed by Hofstede (1980). Another conclusion drawn from his study is that personal values vary more by country than by firm, an affirmation which confirms the influence of the national culture on the organizational culture.

Nelson and Gopalan (2003) state, that the general cultural environment of the national culture affects the organizational culture via institutional forms and individual socialization. They also discovered, in their empirical study involving three countries, certain contradictory phenomena affecting their own previous affirmation and Hofstede's discovery: they found that within a country clusters of organizational subcultures can exist which are in contradiction with the national values of the host country.

According to Yip *et al.* (1997), nationality is a multidimensional construct involving history, citizenship, experience and culture, which can apply to different aspects of the MNC like the location of corporate headquarters, nationality of the managers, subsidiary and national location of units. They consider the nationality as being that of the country where most of the head office managers of the parent firm are located. Also, the authors state that the parent firm's nationality affects the types of personnel practices, management processes, organization structures and managerial culture which predominate. In the multinational firms, there are several national cultures interacting: the national culture of the parent firm and the national culture of each subsidiary. When asking which of these cultures would predominate in the case of the subsidiary firm, we think that because culture is a multidimensional construct, then its influence is also a function of several factors.

2.4.2 Influence of National Culture on Performance of the Subsidiary

In order to study the influence of the national culture of the host country on the performance of the subsidiary, we follow the recommendation of Evans and Mavondo (2002) who propose to disaggregate the national culture in Hofstede and Hofstede's (2005) five dimensions (uncertainty avoidance, individualism, power distance, masculinity and long-term orientation).

2.4.2.1 Individualism

This dimension is explained as a characteristic of the society in which people only take care of their family and themselves (Hofstede, 1980). The degree of individualism-collectivism is related to the degree of entrepreneurship, innovation and inventiveness, which also relate to the routines and repertoires developed by the firms in different contexts (Hofstede, 1980 and Morosini *et al.*, 1998), which also influence the performance of the firm because the routines and repertoires can be used to improve a firm's structure, business strategy and operations.

Hofstede and Hofstede (2005) state, that this dimension affects human resources management. An individualist society manages individuals while a collectivist society manages groups. In the case of Human Resources Management of bonuses based on performance, in an individualist society they will be distributed in function of the individuals' performance, while in a collectivist society the bonuses will be distributed according to the performance of the group (Hofstede and Hofstede, 2005). This policy could stimulate working in groups in order to achieve better group performance; it also appears to reduce the level of conflicts which also contributes to improve the performance.

Davis and Jones (2000) highlight the characteristics of individualistic societies which encourage innovative behaviour, such as professional freedom, autonomy, initiative and independence. Contrarily, in a collectivist culture, the individual initiatives and aspirations are subordinated to the group, affecting in this way the innovative process.

2.4.2.2 Uncertainty Avoidance

Jaeger (1996) associates low uncertainty avoidance with a predisposition to take risks and accept organizational change. Distance in this dimension, represents significant differences in control and power structures (Hofstede, 1980 and Morosini *et al.*, 1998). High uncertainty avoidance is related to the preference of procedures and organizational roles favouring planning, monitoring and control (Hofstede, 1980). According to Hofstede (1980), countries

with high uncertainty avoidance favour short-term feedback, which can lead to the implementation of a top-down type of management (Morosini *et al.*, 1998).

The firm implements certain routines and repertoires to attain the high uncertainty avoidance cultural characteristic. According to Morosini *et al.* (1998), some of these routines and repertoires, such as those related to innovation, decision-making practices, inventiveness and entrepreneurship, are relevant to the performance of the firm and also to be able to imitate or develop them in another culture. If the parent firm comes from a higher uncertainty avoidance national culture, its tendency to implement rules, controls and monitoring in the subsidiary could favour their fast implantation in the subsidiary and also the growth of sales in the short term. But in the medium and long terms, this policy could be counterproductive because it provides the subsidiary with the necessary flexibility to compete in a market with lower levels of uncertainty avoidance.

On the other hand, the firm from countries with a low level of uncertainty avoidance could have problems in adapting to the higher level of rules and controls, in other words to the bureaucracy; this situation demands a greater level of participation by the host culture in the subsidiary at the onset. The influence in the performance of the parent whose uncertainty avoidance culture is lower could be accomplished through characteristics which are: practical, democratic and flexible, as the strategy-making process is less structured than in countries with high uncertainty avoidance which establish the strategic planning. But the influence of these characteristics in a highly constrained environment, like high uncertainty avoidance, is not easy to understand, as perhaps the constrained environment renders the transfer of these characteristics to the subsidiary firm more difficult to achieve.

According to Hofstede and Hofstede (2005), the effects of the cultural dimensions interfere with each other, thereby strengthening or weakening the effect of the dimension. More precisely, they advocate that the effect of uncertainty avoidance on the society's legislation depends on its degree of individualism. In countries with large uncertainty avoidance, individualist rules will be explicit and written into laws, while in the contrary situation with collectivist rules, they will be implicit and rooted in tradition. Jones and Davis

(2000) characterized the two extremes of this dimension as strong uncertainty avoidance, which is associated with the need for formal rules, procedures and consensus, which may in turn negatively affect the performance of the firm. By contrast, the weak uncertainty avoidance cultures encourage competition, challenges and avoidance of formalized rule characteristics which may positively affect performance.

2.4.2.3 Power Distance

Power distance is defined as the degree to which a society accepts the inequality of the distribution of power between its members (Hofstede, 1980). National culture distance, in the dimension of power distance, affects the structures of control and power in the firms (Hofstede, 1980 and Morosini *et al.*, 1998). For Hofstede and Hofstede (2005), there is no empirical evidence of the difference in effectiveness in the power distance dimension. They propose that tasks which demand subordinate initiatives will be comfortably executed in the small power distant country. On the contrary, the tasks which demand discipline will be well executed in a large power distant environment. The low power distant environment stimulates employees' initiatives and autonomy in work, which helps to enhance the individual and team performances.

For Davis and Jones (2000), the high power distant cultures are associated with rigid stratification, excessive rules, top down control and central power, characteristics which increase the cost of transactions and decrease performance. The low power distant culture is associated with the decentralization of knowledge and responsibility, limited usage of rules and controls, free exchange of information and less hierarchical power. These characteristics contribute to increase the flexibility of the firm to contextual changes, reduce transaction costs because of a reduced number of procedures, increase the transfer of knowledge, all of which contribute to an increase in the firm's performance.

2.4.2.4 Masculinity

The predominant values in the society considered to be masculine in nature are: acquisition of money and objects, assertiveness and not caring about others (Hofstede, 1980).

According to Hofstede and Hofstede (2005), the masculine dimension is more adapted to the competitive environment, because of characteristics like aggressiveness and decision, and moreover, the masculine society strives for performance (Jaeger, 1996) while the feminine society strives for a welfare society. The authors propose a necessary fit between work and the cultural characteristics of the society in order to have successful industries. Masculine culturally developed countries excel in manufacturing in large volumes, heavy equipment and bulk chemistry. Feminine cultures excel in services, agriculture, biochemical and manufacturing over quantities of measure.

According to Davis and Jones (2000), characteristics of masculine cultures such as emphasis on the task, acceptance of conflicts and competition, levels of achievement and reward are related to innovation and performance. The feminine societies are focalized on group orientation and relationships, instead of competition which may affect performance.

2.4.2.5 Long-Term Orientation

Long-term orientation is the degree to which the nation adopts forward-thinking values and long-term devotion to traditions. The main value of a long-term highly oriented culture is the perseverance in the pursuit of goals, which is complemented by the fact that they are focused on market position and long-term profit, contrarily to low Long Term Orientation (LTO), which is focused on the bottom line and seeks short-term profits. To illustrate, let's take the Japanese firms which have a high long-term orientation; they are much more patient in reaching their goals than western firms (Park and Ungson, 1997).

On the other hand, human resources are very important for high LTO firms, maintaining that harmony is essential based on respect, a sense of shame, complementary of roles and a stable hierarchy. In the low LTO firms, the important aspect is personal steadiness and stability, which is necessary to maintain the initiative and to affront risks and changing situations (Hofstede and Hofstede, 2005). Davis and Jones (2000) identify the two poles of this dimension, namely the high LTO which is focused on perseverance, hard work, savings, shame, very dynamic and future oriented, which favours an increase in performance. The opposite pole, that is to say the negative LTO or shorter term perspective, is associated with

tradition, static, fulfilling social obligations, reciprocity, past-present orientation, all of which may affect the competitiveness and performance of the firm.

These national culture dimensions are used in this research to determine national culture differences as it uses the values obtained by Hofstede (1980) for each country. The long term orientation dimension is not used because there is no reliable data available for France.

2.5 CULTURAL DISTANCE

This construct is born from Hofstede's (1980) research, which found cultural differences among people of different nationalities. He states in his book that although people, groups or countries are exposed to common problems which demand collaboration to reach a solution, they react differently because they think, feel and act differently, suggesting in this way that some cultures are more distant than others. This construct is frequently utilized in international business, especially in studying entry mode choice, foreign investment expansion and performance of subsidiaries. Shenkar (2001, p. 519) considers that cultural distance measures are "the extent to which different cultures are similar or different".

The complication of this construct consists in the fact that culture is a multidimensional construct, so it determines the difference or distance between cultures involved in order to analyze each of these cultural dimensions, which can become a very complex task. But in a more critical way, Shenkar (2001) considers cultural distance as a way to bypass the complexities related to the definition of culture, by means of a quantitative measure. Although the construct could apply to all cultural levels, in practice it is used for matters relating to the country, and more recently in the organizational level (Makino and Beamish, 1998).

2.5.1 Organizational Culture Distance

The organization as a group of people pursuing the same goals has its own culture which is an amalgam of ideology, beliefs, language, rituals and myths (Pettigrew, 1979). The

cultural differences between two organizations or the cultural distance (Cui *et al.*, 2006), means that those cultural manifestations mentioned by Pettigrew are different for each culture. For Hofstede (1991), the differences in organizational culture reside mostly in practice, so are more related to people's behaviour and activities or daily practices. But cultural distance as a construct becomes really useful when those cultures are brought into contact with each other. According to Shenkar (2001), the construct cultural distance (CD) refers to the interaction between two cultures; the only way to analyze the CD is when both cultures clash. For Simor and Lane (2004), one of the most important factors affecting the organizational culture differences is the historical management practices of a firm in a nation. One of the first researchers to include this construct is Davidson (1980), who found that firms in the initial stage of foreign expansion could prefer close and similar cultures, as the cultural preferences tend to diminish when the firm is in advanced stages of expansion.

Because organizations normally are embedded in the society in which they operate, the relationship between national and organizational culture is intense. Therefore, cultural differences between organizations from different countries also include the national culture as an important source of values. This is claimed by Pothukuchi *et al.* (2002), who state that research on the influences of cultural distance on international business, should include not only the national culture, but also the organizational culture. They propose that studies including only macro measures of national culture could not differentiate the effects caused by individual cultural dimensions. They propose, considering that culture is a multidimensional construct, that the best way to analyze cultural distance is by using specific indexes in each cultural dimension, not only the general indexes of national and organizational cultural distance. Hofstede *et al.* (1990) found six practice dimensions of organizational culture, which they defined as common practices perceived, which represent the differences between organizations according to their management orientation processes: process vs. result, employee vs. job, parochial vs. professional, open vs. closed system, loose vs. tight control, and normative vs. pragmatic. They state that this model could be used to quantify among organizational cultures and that the number of dimensions could vary depending on the environment.

2.5.2 National Culture Distance

Researchers define national culture distance as the level in which cultural norms and values are different from one country to another (Hofstede, 2001; Kogut and Singh, 1988; Morosini *et al.* 1998,). For Hofstede (1991), national culture differences reside mostly in values, for example in international business the cultural distance between parent and host countries, represents the difference in the national culture values of the managers of parent and subsidiary firms (Tihanyi *et al.* 2005). This cultural distance between countries represents the differences in national culture systems, which is important for the study of MNC strategies and organizational characteristics. Considering that culture is a multidimensional construct, the analysis of cultural differences needs to divide culture into dimensions, so it was Hofstede who, in 1980 while studying the organizational culture of a large multinational, discovered differences in national cultures, which he classified into four dimensions: power distance (large vs. small), individualism vs. collectivism, masculinity vs. femininity and uncertainty avoidance (strong vs. weak). He later added a fifth dimension named confusion dynamism, which opposes a long-term versus a short-term orientation (Hofstede, 1990).

Now it is necessary to transfer this concept to the business field, which becomes the effect of cultural distance in firms from different countries. So, as culture is present in all acts of our lives, what happens in the firm is the same thing because it is composed of people, each with his own cultural system. For cultural distance, we take two firms located in different countries, and for the purpose of our research, the parent firm is located in the head office country and the subsidiary in the host country: two countries, two cultures, different values, heroes, rituals and symbols. The research on international business is particularly voluminous on the subject of acquisitions and entry mode choices, and to a lesser extent on subsidiaries. The cultural distance produces differences in the firms in many aspects, such as different administrative and organizational practices and employee expectations (Kogut and Singh, 1988). They also consider that the cultural differences between organizations are proportional to the cultural differences between the countries of each firm.

On the other hand, Hofstede (1980) states that high cultural distance between countries, augments the difference between them in terms of records and routines. From another perspective, Morosini *et al.* (1998) associate the national culture distance between countries with the differences in their administrative practices, working styles, legal systems and incentive routines. The influences of national culture differences extend beyond the inside of the firm; they also affect the firm's stakeholders, like its customers, who are affected in their behaviour (Evans and Mavondo, 2002). This means that customer preferences and purchases are different in different cultural contexts.

2.6 SUBSIDIARY PERFORMANCE

The importance of exploring the performance of the subsidiary is that it allows us to understand the difference between the input resource received and the output of operational performance, and from there, we can identify the strong or the weak performance (Liu, 2006). That is very important to the subsidiary because it can justify its existence in the eyes of the parent firm, with its performance and continuous growth, which is favoured in a context of cultural agreement and strength regarding norms and cultural characteristics (Calori and Sarnin, 1991).

The culture-performance relationship is of interest according to Kotter and Heskett (1992), who proposed three theories to explain the relationship between culture and economic success in organizations. The first theory is based on affirmations by Peters and Waterman (1982) that strong cultures lead to excellent performances; for them a strong culture is when employees share uniformly the same values and behaviours which are easily assimilated by new employees. Kottler and Heskett (1992) explain the mechanism of this influence in three stages: first, establish a common goal; second, respect the same code of values and rules; and third, generate structures and devices. The second theory exposed is based on the role facilitator of the culture in the adaptation of the employee to the different contexts which are defined by the strategic choices, the general environment or the firm's objectives. The third theory sustains that the culture has to aid the firm to foresee the changes and to adapt to them in order to attain lasting success.

Pothukuchi *et al.*, (2002) highlight the importance of making a distinction between the different measures of performance and the different levels of analysis in order to reach reliable conclusions regarding the relationship of cultural distance and performance. They also add that operating and strategic performance is influenced by the national culture distance, and the psychological satisfaction of employees is influenced by organizational culture distance. They recognize two types of outcomes: economic outcomes (efficiency and competitiveness) and socio-psychological outcomes (satisfaction). It is good to differentiate the outcomes because the effects of cultural distance depend on the type of the organizational outcome analyzed; this is clearly ratified by the research of Pothukuchi *et al.*, (2002), who find that the cultural effects of uncertainty avoidance and individualism, in joint venture performance, are contingent upon the kind of organizational outcomes: negative on socio-psychological outcomes but positive on economic outcomes. According to the approach used by the researchers in their study, they assess the economic or the psychological outcomes; normally the first is used by the strategist, management or financial approaches, and the second by the human resources and psychological approaches. Hereafter, we analyze the two kinds of outcomes proposed by Pothukuchi *et al.*, (2002).

2.6.1 Socio-Psychological Outcomes

Several links are developed to explain the cultural effects of the effectiveness in organizations. One of them is based on the affirmation by Kotter and Heskett (1992), that culture may enhance the adaptability of the firm and as a consequence, its performance and effectiveness. Another link is that exposed by Kilman *et al.* (1985), who state that proper behavioural norms motivate employees, increase morale and enhance commitment to the strategy and goals of the firm. Finally, Schwartz and Davis (1981) consider that cultural values help to elucidate the behavioural norms of the employees. For Jaw *et al.* (2006), the performance of the firm can be evaluated in two ways: economic performance and non-financial performance. Non-financial performance is a measure of the employee's contribution to the firm, which consists of elements like: employee commitment, employee

turnover rate, customer loyalty, recruiting excellence, number of patents and flexibility, as the capacity to respond to the changes in the technology or in the market quickly.

2.6.2 Economic Outcomes

Venkatraman and Ramanujam (1986) propose to study the economic performance at three levels: first, at the restricted level of financial performance; second, at the broader level of financial and operational (non financial) performance; and third, at the most general level of organizational effectiveness. Financial performance includes profitability and sales growth, while financial and operational (non financial) performance includes technological efficiency, new product introduction, market share, etc. Finally, organizational effectiveness is measured by evaluating the accomplishment of the goals of all the organization's stakeholders. Due to the breadth of the concept and the complexity of its evaluation, most of the research evaluates business performance at the financial and operational levels. Siehl and Martin (1990) find that the empirical results linking culture and financial performance are inconclusive; they argue that the causes are that conceptualization and methodology fail in the models.

2.7 STRATEGY

Strategy is a very complex concept, and is demonstrated when Trompenaars and Hampden (2004) present a table with the different types of definitions of strategy and their corresponding contradictory definitions. They argue that all current strategies end in a paradox. They also state the relationship between strategy and culture, as a natural disposition for strategy to follow culture; for example, they consider that emergent strategy is a mix of incubation and team processes, where incubation is a kind of corporate culture which is characterized by highly creative incubating new ideas.

One example of the paradox could be the famous discussion between Igor Ansoff and Henry Mintzberg (1978), representatives of the planning school and the emergent school respectively. For Mintzberg, the premise of the planning school that strategy formation is a "controlled, conscious as well as formalized and elaborated process" (Pyzdek, 2003, p. 6), is

incompatible with the elaboration of any real strategy; instead, for him strategy elaboration is not the product of a conscious or deliberate thought (Mintzberg, 1978). Despite the critics, strategic planning is very important for the organization; for example in the manufacturing industry, formal strategic planning is absolutely necessary and consists in aligning the manufacturing strategy with the business strategy (Bates *et al.*, 1995).

Mintzberg (1978, p. 934) proposes that strategy is a “pattern in a stream of decisions”, that it is a stream and not only one decision, as for him there has to be a pattern of coincidence between the decisions taken in the firm. From his studies on strategy formation, he concludes that it can be viewed as the reciprocal interaction between the dynamic environment and the bureaucratic momentum, with leadership mediating between the two forces, that the strategy is influenced by the environment which proposes the challenges, the organization which influences the strategy with its cycles, its tendencies or its rejections.

Mintzberg (1999) proposes ten schools of strategic thought, one of which is the cultural school, which considers strategy formation as a social process rooted in culture. For him, it became clear after realizing, in 1980, that the strategic advantage of the Japanese manufacturers over its American counterparts was a cultural factor which is very difficult to imitate. One of the most influential researchers on culture in organizations is Pettigrew (1977), who defines strategy as a flow of actions, values and events running through a context. He considers that part of this context is time. He notes that values are considered within the definition of culture, so for Pettigrew culture enters in the formulation of strategies, and he says so explicitly when stating that organizational culture and environment are part of the context. Green (1988) considers culture as a strategic process, affirming the operative cultural importance as a facilitating tool in the organizational change process.

2.7.1 International Strategy of the Multinational Firms

Early in 1985, Chakravarthy and Perlmutter considered that the precursors of the global perspectives also included internal and external factors as challenges for the strategic planning of the MNC, such as the economic imperative, political imperative and the MNC's own strategic predisposition. They considered four strategic predispositions of the firm:

ethnocentrism, which considers the parent firm as the centre of the strategic decisions; polycentrism, which takes into account the cultures of the host countries; regiocentrism, which takes into account the interests of the parent firm as that of the subsidiaries; and geocentrism, which proposes a global decision-making system integrating the subsidiaries around it.

Analyzing the organizational structure and management processes in the MNC, Bartlett and Ghoshal (1991) produced a typology which classifies the firms as multinational, global and international, with different strategic positions. The first is more conscious of the national differences and has a stronger local presence. The second type considers all the countries as a whole, including global and operational plans at the global level. The third consists in adapting and transferring the knowledge from the parent company to the foreign markets. The authors state that the managers recognize the necessity to build and manage a different kind of organization, so they propose the transnational model of management, which takes one part from each of the prior models, and they propose to centralize some resources abroad and some at home. They propose the multinational flexibility, which encompasses roles for the subsidiaries according to the different markets. In the markets where the firm adapts its standard global products, the role of the subsidiary is to be the implementer of central decisions. In other subsidiaries where differentiation is chosen, the subsidiary has to differentiate, and in this case the subsidiary has a more leading role. Birkinshaw and Brock (2004) consider that this model is difficult to implement, the reason being that the firms are experimenting with more simple structures.

Mouritsen (1995) classifies the multinational company according to its structure as a global firm, multidomestic firm and exporting firm. In the global firm, the centre sets the strategic priorities and participates actively in the business level strategies. The multidomestic firms are not independent but are responsible for their business units. Finally, the export firms sell the parent firm's products; they enjoy their independence but have limited attributions. Bartlett and Ghoshal (1991) disagree with the proposition of analyzing complex organizations like the MNCs in structural terms only; they argue that the MNCs are complex organizations formed by networks of relationships influenced by informal and

formal administrative processes. Another classification of the MNC firms is presented by Goold and Campbell (1987) in terms of strategy. They also suggest three types of firms: the strategic planning, strategic control and financial control firms. The strategic control firm proposes business units which are independent and responsible for their own profits.

2.7.2 Subsidiary Strategy

In 1990, Crockell and Morrison stated that globalization renders the terms parent and subsidiary obsolete; for them, the subsidiaries become the affiliates, and the parents become the head office, representing in this way the importance of globalization on the subsidiaries. The subsidiary and parent firms could in fact become competitors. But this change in the terms is not reflected in the scholastic world, where research involving strategy formation in subsidiary firms is inexistent, as the subsidiary is considered as an extension of the parent firm and the strategy is assigned a role, one which the subsidiary firm can negotiate to advance its strategic initiatives (Luo, 2003). Griffin (2003) proposes an evolution in the strategic role previously assigned by the parent firm, which allows the subsidiary to modify its strategic position within the organization as a whole. This evolution is favoured by the degree of local freedom which, while taking into account the local requirements, pressures and needs, allows the subsidiary to develop a partial or complete strategy as a response to these deals/arrangements/negotiations/ (Taggart, 1998).

The corporate level is a dominant point of view in research on subsidiary strategy. This is why Taggart (1997) considers that research seems to be developed for subsidiaries located in small economies, with its strategic role assigned by headquarters. Ling *et al.* (2005) propose a research perspective where the subsidiary is the focus, including the local priorities as a part of the strategy. Their case study concerned the subsidiary manager's behaviour based on issue-selling behaviour as a way to catch the attention of top management and thereby heighten the understanding of strategic issues. In other words, the subsidiary manager is selling his firm's strategic issues to the top managers of the MNC. This augments their support and approval to carry out their strategies in the subsidiary. This perspective considers, for instance, that the role assigned by headquarters (according to the parent firm's

perspective) is negotiated by the subsidiary, and that the last decision always emanates from headquarters. Therefore, the subsidiary's capacity of action is limited to the subsidiary manager's capacity of conviction based on his strategies of issue-selling.

One of the first research papers to consider the foreign subsidiary's point of view is White and Pointer (1984), who consider that a subsidiary's general manager can develop his own strategies, which are influenced by many factors, including the ability of the manager. Their model consists of three strategic dimensions: product, market and value-added scope. They also consider this scope to be constrained by factors such as: its own capabilities in the local market, the local and global forces which control industry competition, and the availability of resources from the parent firm. Their typology of subsidiary strategies proposes five kinds of strategies which vary according to the subsidiary's degree of freedom, from the miniature replica which uses the product lines and related products which are adopted, adapted or in some cases innovated, but which always remain close to the parent firm's products.

Then there is the independent strategist, who is allowed access to the global market, and in this strategy, the function of the parent firm is like that of a passive investor. Luo (2003), using a dynamic capability viewpoint, explains that the parent's flexibility capability regarding control, allows the subsidiary to develop strategies to respond to the challenges from the domestic market, to react quickly to environmental changes, and to benefit from market opportunities. Seen in this light, the control flexibility is not only the link allowing to maintain the equilibrium between integration and responsiveness, but also the relationship in the inverse direction, depending on the strategic importance of the subsidiary, which can strategically influence the parent firm's decisions.

The subsidiary must be careful at the moment of making strategic initiatives. as the capability of both parent and subsidiary is an important factor in the success of the subsidiary's strategy initiatives. The new division must be competitive but above all, it must be in concordance with the overall corporate strategy (Crokell and Morrison, 1990).

2.7.3 Influence of the Strategy of the MNC on the Strategy of the Subsidiary

The strategy of the parent is an important concept to understand before beginning to explain what the strategic role is. In the opinion of Birkinshaw and Morrison (1995), this is a mistake because these concepts are opposites; on one hand the role is related to a deterministic process related to the imposition of the functions of the subsidiary by the parent firm. To the contrary, strategy is a term which demands a high degree of freedom wherein the subsidiary can define its actions. In spite of this, we continue to use this term because the parent firm considers the subsidiary as never being free at all, even if it can develop its own strategies, it is constrained by the strategy of the parent firm.

Birkinshaw (1997) considers the subsidiary as an operational unit which is controlled by the MNC and located outside the parent country. On the contrary, Barlett and Goshal (1989) consider the subsidiary as a semiautonomous organization which operates in a different system, considering not only the parent firm but the other stakeholders of the subsidiary as well, admitting that the subsidiary is also a firm, with one stakeholder representing the shareholders, and with other sister subsidiaries with which it can relate to or not.

The subsidiary firm is important because it is the first level of contact of the MNC in the environment. When a MNC penetrates a market far from its home country, the parent firm doesn't know the new market; it needs the subsidiary to obtain the information concerning the new environment. Even now, with the internet able to contact distant places within minutes, the information that the subsidiary gathers is invaluable because it is in direct contact with the exterior. Another important role of the subsidiary is to contribute to the growth of the firm through its strategic initiatives, and transfer this knowledge to the other parts of the MNC (Chung *et al.*, 2000).

The subsidiary receives influences directly and indirectly from the parent firm, in the sense that the parent can impose the strategy to follow, or it can build a string of norms to restrict its strategic freedom. Chakravarthy and Perlmutter (1985) consider that giving autonomy to the subsidiary can increase its legitimacy in the host country, but they suggest

controlling it in order to ensure the integration of the subsidiary's strategy with that of the rest of the firm. Because they worry about the legitimacy of the subsidiary, they constrain this autonomy in order to be in a position to pursue strategic responses to the host government's needs. In that sense, Taggart (1996) declares that the subsidiary's role can be defined by the parent firm, by itself or built by both the subsidiary and parent firms. But no matter the case, the outcomes have to be profitable to the entire firm as on the other hand, the subsidiary faces dual pressure for achieving: isomorphism with the local institutional environment and consistency within the organization (Birkinshaw and Brock, 2004).

Jarillo and Martinez (1990) propose a framework for analyzing the strategy in the subsidiary. They use two dimensions in considering the activities of the firm as the key variable: the first dimension is the geographical localization of the activities, and the second is the degree of integration of the activities developed by the subsidiary with the activities of the rest of the MNC. They thus identified three types of subsidiary strategies: (1) receptive strategy, if few functions of the value chain are carried out in the host country and the subsidiary is highly integrated to the parent firm; (2) active strategy, if the subsidiary carries out many activities in the host country, but in close coordination with the parent company; and (3) autonomous strategy, if the subsidiary carries out most of the functions of the value chain. The interest for the empirical study conducted by Jarillo and Martinez (1990) is that they prove that the strategy of the subsidiary moves to coordinate the localization and the integration of activities, which depend on the environment and the necessities of the MNC.

Birkinshaw (1997) distinguishes two types of corporate entrepreneurship assumed by the subsidiary. The first considers that the subsidiary has a role to play in the MNC, one which is directly attributed to it by the parent company, or indirectly by a mechanism of control and coordination, or by the attribution of capabilities; this perspective is called the head office assignment by Birkinshaw *et al.* (1998). The second allows the subsidiary more freedom to model a strategy. This perspective considers that the subsidiary strategy is constrained by the structural context; in this way, the manager of the subsidiary can shape the strategy within the confines of its boundaries. This perspective is framed by Birkinshaw *et al.* (1998) as environmental determinism, which considers that the role of the subsidiary is provided in

large measure by its local environment, considers the competitors, local country, suppliers, customers, industry, but also the corporate networks as components of this environment (Barlett and Goshal, 1986; Birkinshaw and Morrison, 1995).

The strategy of the subsidiary depends on the global strategy of the parent firm, as being the most important stakeholder in the subsidiary. However, it is necessary to consider the effect of the interaction between the subsidiary and its stakeholders, and its environment. It can be said that the strategic role of the subsidiary is the result of a complex game between its stakeholders.

According to the international strategy adopted by the MNC, the subsidiary has a different strategic role. The MNC is the main stakeholder of the subsidiary firm, but not the only one, and the other stakeholders also have an influence on the strategic role of the subsidiary. However, it is necessary to consider that the strategy of the subsidiary is part of the more global strategy of the MNC, each subsidiary of which has a different strategy. Barlett and Goshal (1987), state that it is necessary for there to be a match between the context of each subsidiary and the structures, control practices and management processes. It is necessary to specify that the context includes the environment and the relationship between the subsidiary and the MNC.

Birkinshaw and Morrison (1995) also propose their typology for the strategies of the subsidiary. They consider three types: the local implementer, with a limited geographic scope, normally one country and a limited scope of products; the specialized contributor, with important expertise in certain activities or functions and highly coordinated with the other subsidiaries; and the world mandate, with worldwide responsibility for products or lines of business.

2.7.4 Strategy Formation

Hax (1990) considers that three processes administrated by the Chief Executive Officer (CEO), at different levels, individual and organizational, contribute to strategic formation: first, the cognitive process of individuals, which allows to understand and evaluate both the

internal capabilities and the external environment; second, the social and organizational processes, which contribute to develop the strategic consensus and communicate the new strategies; and third, the political process, which considers the balance of power on the organization, including the creation, retention and transfer of power, which paves the way for the continuance of their strategy plans. Some of the characteristics that the strategy formation process has to accomplish are: it should be consistent with the global strategic objectives, with the organizational culture and management style. The integration of the strategy formation process with the administrative process and organizational structure, confirms the principal idea of strategic management (Hax, 1990).

The two competing approaches used to define strategy contain elements indicating the patterns of the formation of strategies. The first school, called planning, considers that the objectives are achieved through strategies carefully formulated, while the second, called emergent, considers that the objectives are achieved through a succession of decisions which confirm a pattern, meaning it wasn't pre formulated, as the planning school considers. For Slevin and Covin (1997), both approaches are components of the strategy: the control which is provided for the planning, and the spark of imagination which is provided for the emergent. Organizational and environmental factors affect the effectiveness of the strategy, which varies according to its composition of the qualities: emergent and planned strategies.

The realized strategies recognized by Mintzberg (1978) are composed of two kinds of combinations, the intended strategies in the process of being realized called deliberate or planned strategies and the realized strategies never intended called emergent strategies. The most successful examples of deliberate strategies in Mintzberg's research, is when the managers know their industry intimately and are capable of predicting conditions in a turbulent environment. In a different way, the emergent strategy conditions of formation are more involved, in situations where the knowledge is basic and there is uncertainty surrounding the environment and some turbulence, but the managers have to perceive the patterns containing the decision streams.

Hax (1990) defends the cohabitation between the two forms of strategy formation, the deliberate strategy which represents the necessary learning from the past, and the emerging

strategies which are shaped by the strategic direction already followed, which leads to the decisions becoming more consistent. Those decisions which can be conformed into a pattern are influenced by the mental schemes of the managers, which contain information drawn from the deliberate strategies. It is not, therefore, merely the emergence of decisions in any direction; the directionality comes from the planned strategies registered in the memory of the managers. The changing nature of the environment and the turbulence which is formed, render the only planned strategy obsolete and impracticable. These strong strategic lines need to be reinforced or even changed for another better able to affront both external and internal conditions.

2.7.5 Strategic Planning

According to Boyd and Reuning-Elliott (1998), this construct is considered to be the cornerstone of the strategy literature. For this reason, conceptualisation and measurement of strategic planning problems have implications on topics such as competitive advantage, information acquisition, contingency modelling, planning-performance relationship, strategic decision-making and international studies.

Mintzberg (1978) considers that the main characteristics of strategic planning is that it is clearly ordered, integrated and programmed, except for the process, by a meaningful organization. It is clear that maintaining the strategic planning is highly difficult, due to the chaotic nature of the firm, requiring large doses of leadership and an organizational framework solid but flexible, allowing for the assimilation of changes in the environment. According to Hax (1990), a strategy can be considered as deliberate when its realization fits the planned line of action, one proposed in advance. It follows that the way to test whether a strategy is deliberate or not is longitudinally, because the group of decisions has to match the path proposed in advance for the manager.

For O'Regan and Ghobadian (2002), the subsidiary firms approach strategic planning according to their size. In effect, they propose that the wholly-owned subsidiaries of larger multinationals have a more structured approach to strategic planning than the small and

medium-size firms. Instead, most of the subsidiaries can be considered as medium-size firms, as the resources and expertise of the parent firm help them to take a more systematic approach to the strategic planning deployment. This takes into account the potential barriers and also the influence of the changing environment during the deployment of the strategic planning. The importance of strategic planning in the relationship between parent and subsidiary firms is based on the fact that it can relate all the multinational's components to the strategies and goals chosen (Herbert, 1999).

According to O'Regan and Ghobadian (2002), a critical factor of the strategic direction of small and medium firms, is the ownership. They consider that non wholly-owned subsidiaries have a less structured approach to strategic planning deployment, which affects the success of the strategic plan. In our study, we ensured that the subsidiaries were majority-owned in order to avoid the problem of subsidiaries which approach strategic planning deployment in different ways.

2.7.6 Emergent Strategy

Chapmand and Hyland (2000) consider that the emergent strategy appears mostly in organizations without clear objectives, or even in the presence of them. The lack of defined objectives confirms a chaotic environment within the firm. The description of Barnes (2002) seems to agree with this appreciation, because he considers that the strategy emergence process consists of current actions and decisions which are happening throughout the organization. This is concordant with O'Regan and Ghobadian (2002), who argue that the self-organizational activities taking place in the informal networks of the firm, allow the strategies to emerge.

But for Hax (1990), emergent strategy doesn't necessarily entail an acceptance of disorder, but demands that the managers discover a non-deliberate order which requires that the managers possess qualities such as responsiveness, willingness to learn, flexibility, openness, which help them to discover the unintended order permitting management to stay in control. Such qualities encourage the relatively autonomous managers to take initiatives

involving resources which over time evolve to become patterns of decisions (Andersen, 2004); in this way, the strategic initiatives emanate from the mid-level managers (Mintzberg, 1994). This kind of decisions made by mid-level managers and which compromise resources which can influence the strategic direction of the firm, is called decentralized strategic emergence (Andersen, 2004).

The fact that the emergent strategy stems from the middle managers' initiatives taints them with a domestic character, thus allowing the making of decisions which are more appropriate and faster involving the environmental changes; in contrast, the emergent strategy is confined to its area of influence and the variables related to it. This emergence of strategy occurs almost automatically, without managerial awareness, flowing from managerial memory of past actions. Large and complex organizations like the multinationals, which make thousands of operating decisions every day, could become new emergent strategies, as the strategy will emerge through a cumulative effect, which is facilitated by the guiding strategic principles adopted by the firm (Hax, 1990).

2.7.7 Model of Integrative Strategy

Andersen (2004) studied strategy formation as an integrative process with strategic planning which contributes an analytical and structural sense, while decentralized strategy-making contributes the autonomy, experiment and response.

He considers that the primary sources of an emergent strategy are the decentralized initiatives undertaken by the grassroots managers. So for Andersen (2004), these two modes are simultaneous and complementary, and there exists a mutual necessity. This integration of capabilities between the two strategy-making modes should help to improve performance in a positive way, which would otherwise be moderate in a turbulent environment. He considers the two characteristics of the emergent or decentralized strategy-making as: participation in decisions, and distributed decisional authority.

The first dimension refers to the participation of the middle managers to the decision-making process, which enhances the variety of opinions, perspectives and views about the

market and internal subjects, which in turn improve the quality of the decisions (Amason, 1995). The second dimension refers to the distribution of the authority to make decisions to lower level managers, which decentralizes the taking of decisions, allowing for a faster reaction to the challenges of the dynamic market (Andersen, 2004).

2.8 INSTITUTIONAL THEORY AND SUBSIDIARY FIRMS

For Yiu and Makino (2002), the central premise of the institutional theory is that as a result of the organization's search for legitimacy, it adopts practices and structures which are isomorphic to those of the other organizations. The result is the adoption by the organization of a particular form of structure and practice, because it can access resources from the environment which provide its regulative and normative approbation. The other reason for these adoptions is that the organization assumes that a particular adoption is the proper manner in which to be organized (DiMaggio and Powell, 1983).

The institutional theory distinguishes three sources of isomorphic pressures: the first is the normative, which is related to culture, norms and social values; the second is the regulative, which is related to laws and rules; and finally the third is the cognitive, which refers to the established cognitive structures of the organization (Scott, 1995). For our purposes, the most interesting are the normative pressures, which relate to the fact that subsidiary firms face serious threats from normative pressures and social culture, the normative domain being related to shared meanings and understanding, and the social culture to national culture, norms, values, and belief systems (Yiu et Makino, 2000).

In order to face these threats, the subsidiary firm has to build social legitimacy, which consists in demonstrating its social responsibility to the host country, and to do so it has to conform to social expectations and accommodate institutional expectations (D'Aunno *et al.* 1991). One of the most important barriers in attaining social legitimacy is cultural distance, and the more distant the culture the more difficult it is to reach social legitimacy (Yui and Makino, 2000). This is true for the two spheres: normative, because culturally different people have greater difficulty to share meanings and understanding, based on different

cognitive frameworks which may create differences, and also in the social cultural sphere, which is also different.

The subsidiary firms affront isomorphic pressures in order to attain internal and external legitimacy, called institutional duality (Tempel *et al.*, 2006), and which includes the pressures from the parent firm and the subsidiary networks, as well as from the institutional environment of the host country. The institutional perspective involved in the study of strategy formation in subsidiary firms, suggests that the isomorphic pressures coming from the host environment and from the parent firm influence the tendency of the subsidiary for its choice of planning or emergent strategy. These pressures are a source of tension for the subsidiary which has to deal with them, and in so doing may have to modify its strategic choice. According to Yui and Makino (2002), isomorphic pressures embedded in the host national environment influence the choices of the decision-makers, because of the necessity for the subsidiary to gain or defend its legitimacy in order to assure the supply of resources. On the other hand, the subsidiary firm affronts great pressure from the parent firm's organizational practices (Yui and Makino, 2002), which means that the strategic choice has to be in agreement with them. The way these pressures are interpreted will depend on the nature of the relationships between parent and subsidiary firms, which in turn affects the outcome of the development of capabilities and activities in the subsidiary firm (Hewett *et al.*, 2003).

The presence of a local partner in the ownership of the subsidiary influences the choice in two ways: the first is in conforming to the isomorphic pressures of the host environment, and the second is that in case of a major dispute between the organizational practices of the parent firm and the national partner, the results will depend on which firm controls the operations. In our case, we are looking at firms which are controlled by the foreign parent firm; therefore, the isomorphic forces coming from the organizational norms of the parent firm will be alleviated by the presence of the national partner.

2.8.1 Legitimacy and Culture

For Suchman (1995), the key word for describing legitimacy is congruence, between the norms of acceptable behaviour of the host society and the social values related to the organizational activities. Meyer and Scott (1983) consider that congruence involves the organization and its cultural environment; this cultural congruence explains what the organization is doing and what means it is using (Jepperson, 1991). In others words, according to Parsons (1960), legitimacy justifies the organization's role in the social system. Suchman (1995) considers that the literature on the subject of organizational legitimacy focuses on two theoretical approaches: strategic and institutional. In the strategic perspective, legitimacy is considered an operational resource extracted from the cultural environment and used in the pursuit of goals, while in contrast, the institutional perspective proposes legitimacy as a set of constitutive beliefs which determine how to run and build the organization, and also how to evaluate and understand its functioning. Suchman (1995) considers that management legitimacy is a cultural process based heavily on communication between the firm and the environment. The manager has to utilize all his skills to be heard, and his power of discrimination in deciding which situation merits response. The skills required can range from traditional discourse to the most sophisticated techniques, while the discriminating awareness obliges the manager to know his organization and the environment, in order to be in a position to respond when and where the message contributes to legitimacy.

The continuous search for legitimacy by the subsidiary firm is based on its necessity to attract resources and constituents' support (Ashfort and Gibbs, 1990), because both the market and the parent firm are most inclined to supply resources to organizations that appear appropriate (Parsons, 1960). In the initial years of the subsidiary, when it is establishing itself or penetrating a new sphere of activity (Ashfort and Gibbs, 1990), one of its main challenges is to gain legitimacy, which is crucial for its survival, because of the lack of key resources from the parent firm and the host environment. To gain legitimacy, the subsidiary firm could adopt one of the following positions: first, conform to the environment, which consists of adapting its actions to the requirements of the environment, or second, manipulate the environment, which consists of the managers adopting measures which can influence the

environment. Legitimacy faces several threats, such as external shocks, innovations, failures and mistakes, threats which aggravate their effects if they occur in succession or aren't attended to at the right time. The firm attempts to maintain its legitimacy by employing strategies like the protection of past achievements or the perception of future changes. Finally, the subsidiary which loses its legitimacy considers all means to repair it, using different measures proposed to gain legitimacy (Suchman, 1995).

2.8.2 Implementing Different Types of Legitimacy

Tian and Gao (2006) recognise that the most difficult challenge for the multinational company is to gain moral and cognitive legitimacy, in host countries, demonstrating a large cultural difference with the parent nationality. Suchman (1995) distinguishes, from the existing literature, three broad types of legitimacy: pragmatic, moral and cognitive:

- a) Pragmatic legitimacy consists in satisfying the isomorphic pressures of the closest stakeholders, which are based on their self-interested calculations. One way of building cognitive legitimacy is to establish mutually beneficial long-term relationships; another way is to manipulate the environment in order to promote a positive image and be able to select among environments with potentially attractive audiences.
- b) Moral legitimacy, is achieved when the organization has a normative positive evaluation of itself and of its activities. This legitimacy can be obtained in several ways, such as by following and adopting the procedures and structures of an organization, which is to say of professionals who are already accepted as legitimate by the environment.
- c) Cognitive legitimacy, involves two types of acceptances: first, as necessary and inevitable based on taken-for-granted cultural accounts, and second, as positive support for the organization. Cognitive legitimacy can be built by a cultural manipulation of the environment, for example: through lobbying officials,

advertising, etc. Another way is by selecting certified environments, where the firm can gain legitimacy by entering a setting where the certification has been previously validated and legitimated.

2.9 CONCLUSION

The review of literature unveils a certain lack of knowledge regarding subsidiaries firms such as: the influence of organizational culture distance on the subsidiary performance and the influence of the cultural environment on the relationship between strategy formation and performance.

On the other hand, national culture distance is considered to influence negatively on the performance of the subsidiary and on the relationship ratio of expatriates-performance (Colakoglu and Caligiuri, 2008). But these conclusions are based on the study of national culture distance, and not on organizational culture distance which is considered a more influential cultural environment factor than is national culture distance (Cui *et al.*, 2006). National culture distance is analysed as a direct influence and as a moderator influence, but not as influencing the relationship between the strategy components and performance.

As a consequence, the review of literature provides enough support to hypothesize that organizational culture distance is correlated with the performance of the subsidiary and to hypothesize the moderating role of the cultural distance influencing on the relationship between strategy-making modes and performance.

CHAPTER III

RESEARCH MODEL

3.1 CONCEPTUAL FRAMEWORK

This research explores the impact of cultural differences on the strategy formation process and on the performance of subsidiary firms. It is based on Andersen's (2004) findings that decentralized strategic emergence and strategic planning have a positive effect on the performance of firms in a turbulent environment. We propose a model showing that the cultural environment represented by organizational culture distance and national culture distance influences the effects of both strategic approaches in the organizational performance of subsidiary firms.

The model also proposes the negative effects of cultural distance on organizational performance. Finally, the model proposes that the joint effects of both strategic approaches are complementary to their negative effects on organizational performance.

3.2 HYPOTHESIZED RELATIONSHIPS

Proposition 1

Decentralized strategic emergence leads to desirable outcomes in a subsidiary-parent firm close cultural environment.

3.2.1 Hypothesis 1a

Subsidiary firms with a high degree of decentralized strategy emergence are associated with superior organizational performance, particularly when the organizational cultures of the parent and subsidiary firms are close.

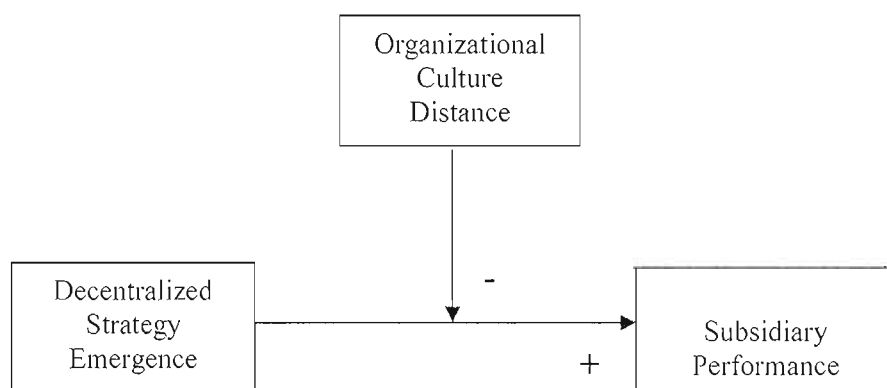


Figure 2 : Hypotheses 1a

This study postulates that the greater the organizational culture distance between the parent and subsidiary firms, the lesser the effect of decentralized strategy emergence in the performance of the subsidiary firm.

The middle-level managers, by their position, are closer to the host market than are the top-level managers; this nearness between the managers and the host environment allows the first to react promptly to the isomorphic pressures of the latter, thereby producing the emergence of strategic ideas. A fast response increases the possibilities of conforming to the immediate isomorphic pressures and as a consequence, the subsidiary gains pragmatic legitimacy (Tian and Gao, 2006). On the other side the subsidiary firm which is close culturally to the parent firm gains internal legitimacy, which allows the subsidiary to have access to more resources from the parent firm, which can affect positively the implementation of the emergent strategies and the performance.

We presume that decentralized strategy emergence in a scenario of close cultural distance between parent and subsidiary firms has more favorable effects, such as an increase in communications at the intermediate level between the two firms, which permits a faster and more effective transfer of knowledge. The proximity of both corporate cultures provides the subsidiary with more comprehensiveness with respect to the administrative procedures and decision-making processes of the parent firm, which in turn facilitates the emergence of strategies to propose their ideas in such a manner as to increase the possibilities of being accepted by the parent firm.

The similitude of learning capabilities also contributes to the success of the knowledge transfer, because the parent firm knows how to transmit the knowledge so that the subsidiary firm understands it better. A similar relative level of consistency of core elements such as: meanings and understandings, between organizational cultures, may influence positively on the effectiveness of communications (Cui *et al.*, 2006), thereby affecting the transfer of experiences and knowledge. This is especially important for the subsidiary, which needs resources from the parent firm, such as: financial, technological, experience, and general knowledge, in order to affront the competitors and conform to the host environment's isomorphic pressures.

Yu (2005) demonstrates that the subsidiary has a higher activity satisfaction when it has more local responsibilities and when the cultural differences between parent and subsidiary are decreasing. The reason may be that if the parent firm feels that the subsidiary is culturally closer to it, then it will have the tendency to trust in it more, thereby increasing the possibility of granting it more responsibilities. For the other side, Yu (2005) states that increasing cultural differences between both firms, causes higher levels of uncertainty in decision-making in the subsidiary which can make the acceptance of new emergent strategies by the top managers difficult.

3.2.2 Hypothesis 1b

Subsidiary firms with a high degree of decentralized strategy emergence are associated with superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

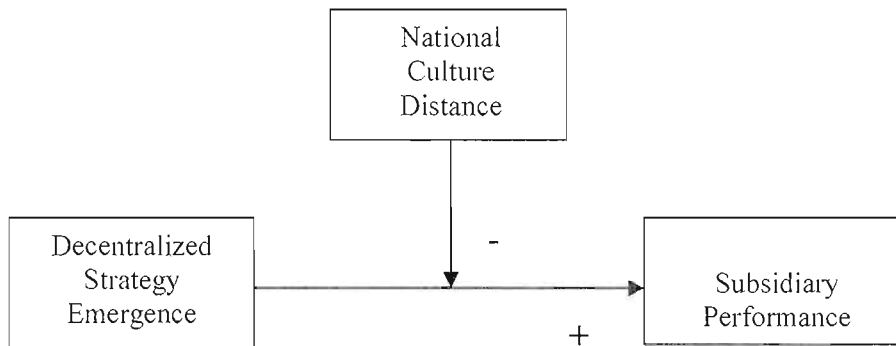


Figure 3 : Hypothesis 1b

This study postulates that the greater the national culture distance between the parent and subsidiary firms, the lesser the effect of decentralized strategy emergence in the performance of the subsidiary firm.

Decentralized strategy emergence allows for pragmatic legitimacy, in the measure that enables the subsidiary to conform to the requirements of the host environment, to increase. On the other hand, close national cultures contribute to increase the effects of this relationship, in so far as the prevailing beliefs and values are similar. The establishment of links and cooperation with organizations registering a greater degree of legitimacy would be more common, as it is a way to gain moral legitimacy.

The subsidiary affronts normative isomorphic pressures as a product of the influence of the host environment and the parent firm; this phenomenon is called “institutional duality” by Tempel *et al.* (2006, p. 1543). When the national culture distance is low, the subsidiary conforms easily to the normative pressures of the host country, gaining moral legitimacy; but when the national cultural distance is great, the normative pressures could cause instability within the subsidiary, rendering it unable to conform to the pressures from headquarters.

Close national cultures allow predicting the behaviour in both directions, between the parent and subsidiary firms, which increases predictability, reduces uncertainty, and also provides a most effective control of subsidiary behaviour, which ensures the compatibility of behaviours emanating from different parts of the organization to support common goals (Chen and Wong, 2003).

It can also increase the possibilities for compatibility between the emergent strategies and the headquarters' strategy, which augments the possibilities of the emergent strategy being adopted, and in this way contributes to the increase in the performance of the firm. It also reduces the occurrence of numerous emergent strategies from being rejected by the top-level managers as not sufficiently concordant with the headquarters' strategic thinking, reducing in this way the waste of energy and creativity and the negative effect on the self-esteem of the mid-level managers. Close national cultures alleviate the barriers to the technical communication between the different levels of the subsidiary firm and the transfer of knowledge (Munir, 2002).

Close national cultures act as a bridge allowing for the interaction between both partners (Swift, 1999), which enables headquarters to stimulate strategic ideas on the subsidiary. In the case of emergent strategy, communication is important between mid-level managers and technical support personnel, and their partners in the parent firm; informal and free communication helps the parent firm to understand the problems of the subsidiary firm (Chen and Wong, 2003), and allows the subsidiary to receive information. Communication at the middle level between parent and subsidiary firms allows the knowledge and strategic issues to flow between middle managers from both firms, who speak the same technical language and share the same theoretical framework. This is much better, as both the subsidiary and the headquarters' receptors understand the same technical language, and the problems of the subsidiary are quickly understood by headquarters and the feedback is quick and understandable.

In the case of the relationship with the external environment, the subsidiary firm gains cognitive legitimacy because its cultural model is close to the national host culture and

therefore widely accepted (Tian and Gao, 2006). These cognitive similarities allow the relationship between the middle-level manager and the host environment to be more effective. The closeness of the national cultures allows for a reduction of the cultural barriers, making it easier and more effective to interact, which is the key for successful business relationships (Swift, 1999).

Proposition 2

Planning the strategic process leads to desirable outcomes in a subsidiary-parent firm's close cultural environment.

3.2.3 Hypothesis 2a

Subsidiary firms with a high degree of strategic planning are associated with a superior organizational performance, particularly when the organizational cultures of the parent and subsidiary firms are close.

This study postulates that the greater the organizational culture distance between the parent and subsidiary firms, the lesser the effect of strategic planning in the performance of the subsidiary firm.

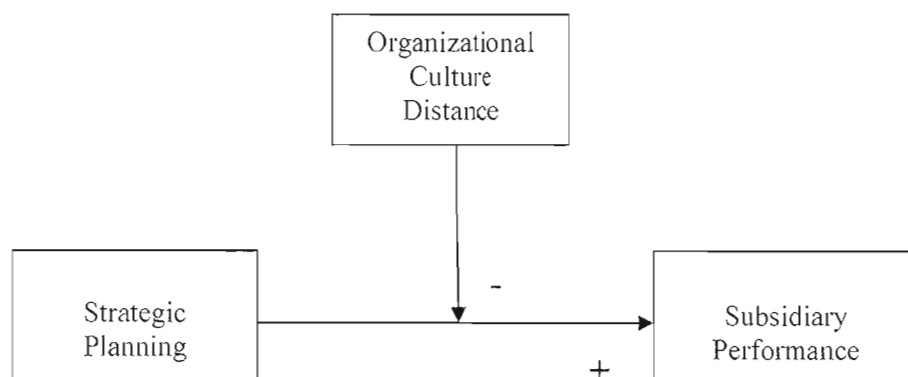


Figure 4 : Hypothesis 2a

Constraints such as the order, the integration and the programming, introduced by strategic planning on the decision-making process (Mintzberg, 1978), contribute to enhance

the internal legitimacy, to ensure the supply of resources and to increase the organizational performance. However, it could negatively affect the operational efficiency by restricting the capacity of the firm to respond to the external isomorphic pressures. At the internal level, the subsidiary gains pragmatic and moral legitimacy, pragmatic legitimacy because an engagement to a strategic plan contributes to satisfy the parent firm's expectation to accomplish its goals, and moral legitimacy because of the use of norms and rules certified by the parent firm.

Regarding the external legitimacy, strategic planning attempts to conform to those isomorphic pressures from the environment on which to set goals and create strategies, those which would allow it to respond to the demands of the host environment. In the measure in which the subsidiary satisfies the necessities of the host environment, it increases its external legitimacy. The adoption of a strategic plan allows the subsidiary to gain pragmatic legitimacy because it strives to satisfy the requirements of the host environment through a long term plan (Tian and Gao, 2006).

The influence of close organizational cultures on the relationship between strategic planning and organizational performance, allows for an increase in internal legitimacy. This is because the closer meanings and understandings between the two firms facilitate the closeness between the strategic plan of the subsidiary and the goals of the global firm, which increases the possibilities for its approbation by the parent firm. The other effect touches moral legitimacy, because close norms and values allow the subsidiary to conform to the parent firm, thereby gaining a positive evaluation for it and its activities. In the case of external legitimacy, the influence of close organizational cultures is only indirect, because it helps to increase the resources from the parent firm, which places the subsidiary in a better position to satisfy the requirements of the host environment.

Close organizational cultures allow for an increase in the transferability of the strategic plan from the parent to the subsidiary firms, because the strategic plan is built on assumptions derived from the cultural environment of the firms (Herbert, 1999). One case dealing with this constraint is the failed western implementation of Japanese management techniques in

the professional employees of an American firm. For Schneider (1988), organizational culture is important to multinational firms because it allows them to improve the coordination, control and integration of their subsidiaries. On the subsidiary side, a lesser organizational culture distance between it and the parent allows for the strategic plans of the parent and subsidiary firms to agree on the same goals and objectives. This allows for the saving of time and costs in the implementation and controlling of the subsidiary's strategic plan. The trust between the two firms increases, making the transfer of knowledge and resources from both sides easier, while reducing the transaction costs of these transfers, which favours an increase in the performance of the subsidiary firm.

3.2.4 Hypothesis 2b

Subsidiary firms with a certain degree of strategic planning process are associated with a superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

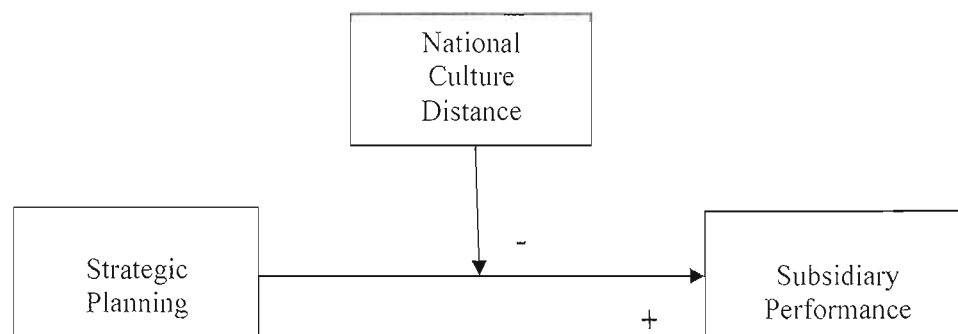


Figure 5 : Hypothesis 2b

This study postulates that the greater the national culture distance between the parent and subsidiary firms, the lesser the effect of strategic planning in the performance of the subsidiary firm.

The regulative isomorphic pressures are satisfied by the strategic planning, which encompasses goals and rules aligning with the pressures from the parent. For Herbert (1999), the strategic planning of a multinational firm has the main purpose of linking the firm and its subsidiaries to the aims and strategies chosen. For Andersen (2004), strategic planning reflects the organization's adherence to the long term goals; it involves the evaluation of the strategic objectives which would confirm that the subsidiary is following the general strategy of the parent firm. At the same time, it is a way of controlling the multinational firm, which makes of strategic control an effective tool to control subsidiary evolution.

Researchers like Nobles (1999) and O'Regan and Ghobadian (2002) state the negative effects on subsidiary performance of a defective implementation of a strategic plan; they found that the subsidiary faces lower barriers to implement the strategic plans compared with other non subsidiary firms. It can be supposed that the parent firm is a determining factor in the process of reducing these barriers, but the researchers discovered that contrarily, the influence of parent firms is not significant in that process. In their pilot study, they confirmed eight barriers or constraints to the implementation of strategic plans; we consider that three of these barriers are related to cultural differences: communication, implementation and coordination.

Differences between parent and subsidiary firms cause these barriers of implementation to prevent the strategic planning from relating the parent and subsidiary firms around the same goals and strategies. According to the Institutional perspective, the closeness between the national cultures of the two firms contributes to increase the internal legitimacy of the subsidiary, because the similitude between the national cultures contributes to stabilize the tension caused by the isomorphic normative pressures. Otherwise, the closeness of national cultures facilitates the communication between members of both firms and the transmission of knowledge in two ways, from the parent firm to the subsidiary and from the subsidiary to the parent firm, which allow the subsidiary to be understood and accepted by headquarters, obtaining in this way the internal cognitive legitimacy from the parent firm (Shepherd and Zacharakis, 2003).

Proposition 3

Close cultural distance leads to desirable outcomes.

3.2.5 Hypothesis 3

Close organizational cultures between parent and subsidiary firms positively influence the organizational performance of the subsidiary firms.



Figure 6 : Hypothesis 3

Close organizational cultures between parent and subsidiary firms, means closer norms and values with the parent firm, which allows for an increase in the moral legitimacy of the subsidiary. This moral legitimacy will be reflected in a positive evaluation of the subsidiary and its activities by the parent firm (Parsons, 1960; Tian and Gao, 2006). There are also positive effects in the implementation of the parent firm's practices in the subsidiary because of the similitude in beliefs, practices and laws of both firms (Dacin *et al.*, 2002). Therefore, the positive normative evaluation of the subsidiary and the effective implementation of new knowledge transferred by the parent firm will have a positive effect on the functioning of the firm and on its performance.

The organizational culture distance can also be related to cognitive legitimacy, because its closeness facilitates the understanding and acceptance of the subsidiary firm, which is considered by Tian and Gao (2006) as a way of gaining internal cognitive legitimacy. But it is also related to pragmatic legitimacy, in the sense that if both firms have a relatively close organizational culture, that may facilitate the establishment of long term strategic plans which satisfy the demands of the parent firm.

Organizational culture distance has a negative effect on the organization's outcomes, producing differences in behaviours and practices which happen in real time and continuously, and it produces misunderstandings, interaction problems and conflicting expectations within the organization (Pothukuchi *et al.*, 2002). Their analysis unveiled frictions as the result of the interaction of two cultures; the effect of cultural distance is visible and is engendered by the interactions of the partners, as cultural manifestations are not complementary. Garibaldi (2006) declares that differences between organizational cultures are understood mainly in terms of their different practices, which are the visible part of culture and which, in certain limits, can be manageable.

Cultural distance at the corporate level also affects the effectiveness of communication, which depends on the level of consistence of the core elements (values, ethics, and norms) between both organizational cultures (Harvey and Griffith, 2002). This reduction in the effectiveness of communication affects the information exchanges and increases the conflicts and misunderstandings, which affect the technology transfer process (Cui *et al.*, 2006). For Makino and Beamish (1998), cultural distance at the corporate level is related to differences in management practices, decision-making processes, core businesses, needs and learning capabilities between partners, affecting in this manner the satisfaction and effectiveness of interactions in international alliances (Sirmon and Lane, 2004).

These conclusions are concordant with Hofstede's (1980), who states that organizational culture is related to the most visible and touchable aspect of culture, and for that reason is the first to cause sparks when culturally different parent and subsidiary firms interact. On the other hand, for Schneider (1988), the multinational companies look to promote organizational culture in order to improve coordination, integration and control of their subsidiaries, contributing to the coherence and cohesiveness of the subsidiary with the goals of the parent firm. One of the negative consequences for the subsidiary firm is that headquarters increases its uncertainty regarding it because its capacity of cultural control diminishes when the cultural distance increases, which negatively affects the transfer of knowledge and strategic ideas.

Proposition 4

The strategic planning process and the decentralized strategy emergence lead to desirable outcomes in a subsidiary-parent firm's close cultural environment.

3.2.6 Hypothesis 4a

Subsidiary firms with a high level of strategic planning process and a high emphasis on decentralized strategy emergence are associated with superior organizational performance, particularly when the organizational cultures of the parent and subsidiary firms are close.

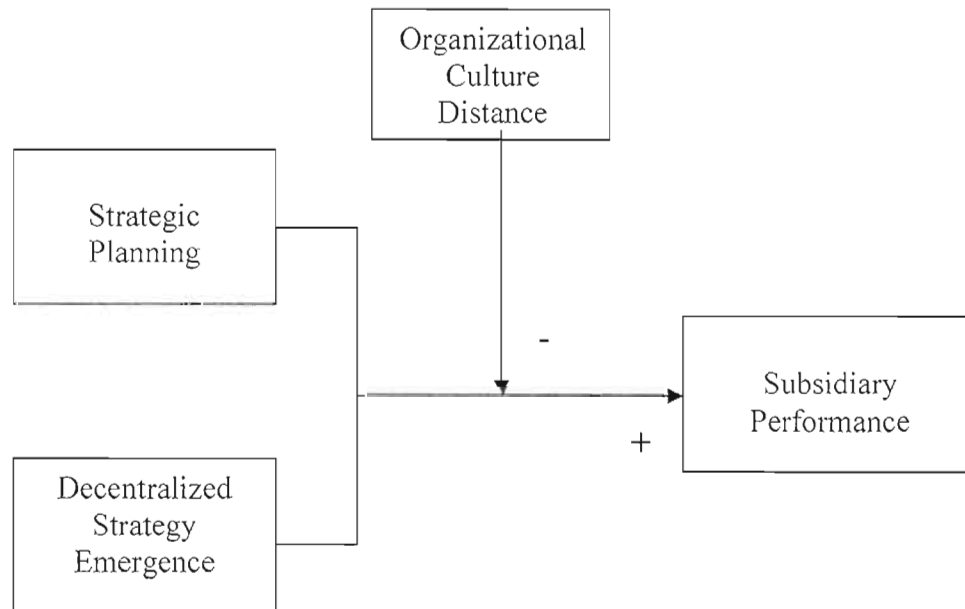


Figure 7 : Hypothesis 4a

Andersen (2004) proposes that the roles of the two strategy approaches are complementary: the decentralized strategy emergence which brings forth the autonomous initiatives, and the strategic planning which acts as a coordinator of these responsive actions. That combination allows the middle managers to become involved in the strategy formation of the subsidiary and to collaborate with valid initiatives which respond to the necessities of the local market. Being guided by the strategic planning process allows for a greater

adaptation of the strategies to the strategic goals of both the subsidiary and headquarters. In this way, the emergent strategies get accepted by the top manager and receive the support of headquarters. The effect of both strategic approaches helps to gain pragmatic legitimacy on both levels, internal and external, and contributes to obtaining resources from the host environment and the parent firm.

Tian and Gao (2006, p. 99) propose that pragmatic legitimacy can be built “through long-term contractual relationships, between parties, that prove mutually beneficial”. This long term contractual relationship can be attained through the planned strategy, which is the formulation of the intentions of the leaders. A strategic plan is detailed, budgeted and articulated as precisely as possible to ensure that its implementation is fast (Mintzberg and Waters, 1985). This relationship between the parent and subsidiary firms, according to the planned strategy, increases the internal legitimacy because it allows the incorporation of the strategy and practices from the parent firm to the subsidiary firm. In the case of external legitimacy with the host environment, Tian and Gao (2006) consider that a quick satisfaction of stakeholders’ demands contributes to establish the pragmatic legitimacy of the subsidiary firm; the host environment demands quick reactions which promote the emergence of strategies aimed at satisfying those demands. Obtaining both legitimacies allows the subsidiary to increase its organizational performance by assuring the supply of resources from the host environment and from the parent firm.

The effect of close organizational cultures is to increase the possibilities that the strategic plan will be concordant with the goals of the parent firm. With regard to the emergent strategy, it facilitates the transfer of knowledge between the parent and subsidiary, equipping the subsidiary with better tools to accomplish the requirements of the host environment. In other words, close organizational cultures increase the positive effects of both strategic approaches for gaining moral internal legitimacy, because of the close values and norms with the parent firm. Hillman and Wan (2005), state that an early adoption by the subsidiary of the organizational practices and strategies institutionalized by the parent firm, contributes to obtaining internal legitimacy from the latter. In this way, the legitimacy efforts are powered by the effects of close organizational cultures, especially the pragmatic legitimacy, because

they facilitate the adoption of the parent firm's expectations into the strategic planning of the subsidiary, but also in the cognitive legitimacy, because as Tian and Gao (2006) state, one way to obtain cognitive legitimacy is to adopt the appearance of understandable and well-accepted organizations.

Moreover, close organizational culture increases mutual knowledge of the administrative and strategic processes, thereby facilitating communications, which implies a better transfer of strategic ideas, administrative and technical knowledge. Another effect is an increase in trust, which has positive consequences for the subsidiary; for instance, it can receive more and better assignments within the multinational network, which increases its importance inside the multinational network, as well as facilitating the transfer of knowledge which increases the competitiveness of the subsidiary in the local market.

Close organizational cultures of parent and subsidiary firms favour the process of diffusion and assimilation of organizational practices, because the closeness facilitates the parent firm's organizational culture influence in the interpretation of reality and in the construction of the subsidiary's organizational reality (Wilkens *et al.*, 2004). The transfer of knowledge and strategic ideas is good for the middle managers; they receive fresh information, normally in advance of the local industry, which is promptly transformed into emergent and spontaneous strategies impregnated with the headquarters' strategic thinking, increasing the subsidiary's possibilities to be accepted by the top managers and with a lower implementation cost.

3.2.7 Hypothesis 4b

Subsidiary firms with both a high degree of strategic planning and a high emphasis on decentralized strategy emergence are associated with superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

The contribution of strategy emergence to the strategic planning process allows the subsidiary to focus on a precise problem which can be resolved directly. Therefore, the planning strategy, because of its wider vision, drives the emergent strategy to face more complex problems with repercussions all around the firm. But the better approach between these two strategies is a collaborative one between the strategic planning, which comes from headquarters as well as from the same subsidiary's top managers, and the emergent decentralized strategy, which comes from the subsidiary's middle-level managers. This collaborative approach means that the top managers respect and trust the mid-level managers' opinions and insights, which establishes two-way communications, thereby creating a continuous flow of emergent strategies.

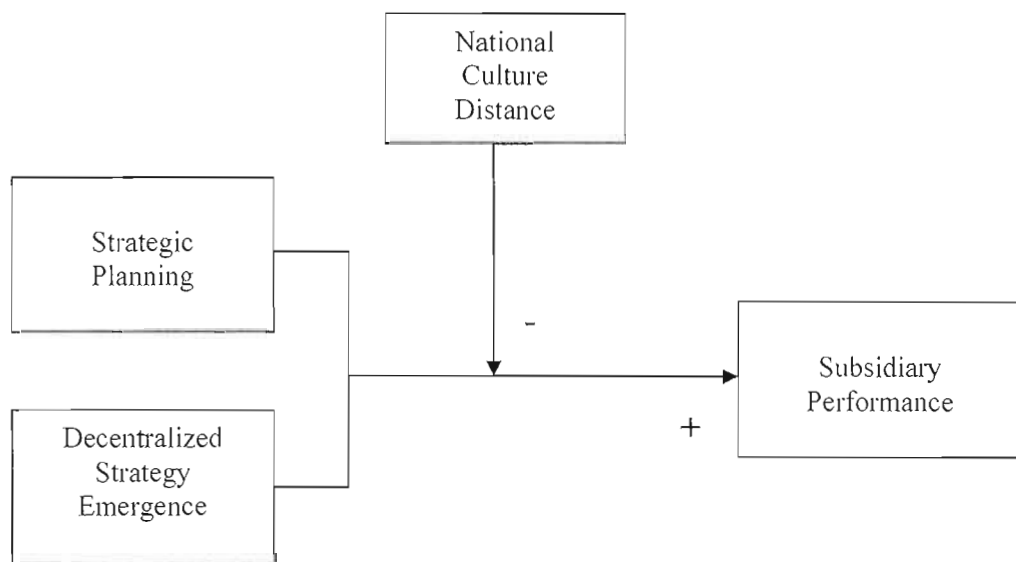


Figure 8 : Hypothesis 4b

The effect of close national culture over the combined effect of planning and emergence on performance, allows the subsidiary to gain pragmatic legitimacy, which is motivated by its effort to conform to both stakeholders: parent firm (internal legitimacy) and host environment (external legitimacy). Close national cultures may influence the relationship because the similitude of values, beliefs and assumptions, facilitate communications and the transfer of knowledge, which can help to comprehend the problems and to implement the

strategic decisions. Close national cultures allow, in a certain measure, the subsidiary firm to conform to the established national culture of the host country, gaining in this way cognitive legitimacy (Suchman, 1995). However, the members of the organizations help in a certain way to obtain this conformity, because they sometimes copy the culture and practice of the environment in their search for legitimate goals of rationality and justice (Pedersen and Dobbin, 2006).

Shepherd and Zacharakis (2003) declare that knowledge about a subsidiary provides cognitive legitimacy, and that spreading this knowledge can be done in two ways: by the subsidiary's effort to inform the new market, or as a direct result of the customer searching to fulfill a necessity. This spreading of knowledge about the subsidiary is also used in the relationship between the parent firm and the multinational network; the subsidiary manager has to inform the parent firm of its results and projects in order to gain cognitive legitimacy from the parent firm.

On the other hand, close national cultures facilitate the communication, which is a key element in the relationship between subsidiary and parent firms, assisting them to better coordinate the implementation of the strategic plan from headquarters. Better communication helps to enhance the mutual knowledge between the parties, which increases the confidence and facilitates the transfer of knowledge.

Also, communication between subsidiary and host environments is a key element for obtaining the cognitive legitimacy which is strengthened by close national cultures, because people with similar mental cultural programming can communicate faster and more productively. Therefore, close national cultures may render the knowledge about the subsidiary more interesting to the customers and also facilitate the search for knowledge, because it has more coinciding points with the customers than do others firms.

CHAPTER IV

METHODOLOGY

4.1 RESEARCH DESIGN

A cross-sectional survey-based data set is proposed to examine the framework linking the strategy-making modes and cultural distance with organizational performance. The conceptual framework for this study was partly derived from Andersen's (2004) integrative model of strategy formation. Chapter 4 tests the methods and designs used in this research to empirically prove the hypotheses proposed in chapter 3. This is about the relationship which assesses the effect of the cultural difference of the subsidiary firm on its parent firm in two levels, organizational and national, on the relationship between the strategy choice and organizational outcomes, and also the direct effects on the outcomes.

4.2 USING TRIANGULATION

A literature review allows us to explain the positive effects of the use of triangulation in our research, which is the use of qualitative and quantitative research methods. But for Smircich and Morgan (1980), this dichotomization using two methods is excessively simplified and rough; they claim that a more reflexive approach would allow understanding the nature of research in social sciences, especially the link between techniques and assumptions. In practice, many researchers incorporate forms of quantitative or qualitative methods in their studies; in fact, researchers interact with their pairs who use different methodology, which contributes to obtaining richer and more valid conclusions, with a project sustained by methods and data from the different streams of methodology (Cochran and Dolan, 1984). All these types of interactions which attempt to overcome problems of bias and validity in social research are labeled triangulation, which means the use by the researcher of multiple methods and measures of empirical phenomena (Cox and Hassard, 2005).

For Jick (1979) and Krueger (1994), the qualitative and quantitative methodologies are complementary, the strengths of one could supply the weaknesses of the other; this is the goal that Lewis (1994) appears to be aiming at when she uses quantitative methods to compensate for the lack of objective data uniquely from qualitative methods. Thietart *et al.* (2003) admit that the primary goal of triangulation is to attain more precision in the measure and description of phenomena, which is to say to benefit from the advantages of both methods simultaneously. The utilization of different kinds of data can help her improve conclusions while judgments may provide a more precise portrait of the phenomena, and the convergence between observations and survey data enhances the confidence in the validity of the results (Jick, 1979).

For his part, Modell (2005) found four forms of triangulation in the literature: method, data, investigative and theory triangulation. We note a brief description of these different types of triangulation in Cox and Hassard (2005): 1) Method triangulation, where different methods are used; 2) Data triangulation, involves the utilization of different sources of data collected at different times; 3) Investigative triangulation, means that different researchers participate independently in the same project, collecting data, analyzing and comparing results; and 4) Theory triangulation, implies the utilization by the researcher of theoretical perspectives different from his own theoretical framework. Modell (2005), states that the theory of triangulation allows sensitizing the researcher to challenges or complementary explanations which may otherwise pass unnoticed due to the preponderant role of the dominant theoretical perspective, and also it stimulates the use of different methods. On the other hand, the same Modell (2005) states that the triangulation method helps to enhance the validity of research outcomes, because it is used as a means to avoid potential validity threats.

4.3 SAMPLE REQUIREMENTS

The sample is composed of Canadian foreign owned subsidiaries with a minimum of 2 years of existence, which means they must have been launched before October 2005; this period of time allows the firm to consolidate. According to Woodcok *et al.* (1995), after two

years of functioning, the performance of the international joint venture becomes stable, because new firms over time learn to deal with other cultures (Barkema *et al.* 1996). This is ascertained by Buono and Bowditch (1989), who consider that the negative effects of cultural distance in an acquisition are stronger during the first few years following the acquisition. The two-year period also allows reducing the interferential effect of the lack of knowledge and experience of the employees of the new subsidiary. We analyse in chapter 6, the effects of time of operation in the relationship under study.

The head office countries of the subsidiaries operating in Canada are Japan, France, Germany and England. The selection of these countries is based on the fact that they have sufficient cultural differences with Canada to allow us to analyze the effects on Canadian subsidiaries of different national culture distances. Another factor is the numerous subsidiaries they implanted in Canada.

Also, we consider only majority-owned or wholly-owned subsidiary firms, considering that a 51 % majority ownership allows the majority-owner parent firm to control the subsidiary and design the strategies. We decided not to consider subsidiaries with a 50-50 or less ownership because this could cause problems in our formulation of the problem making it necessary to consider the organizational and national culture of the other co-owner. The size of the subsidiary firm is also considered to be an important factor at the moment of selecting the sample; in this case we consider only subsidiary firms with at least 20 employees. Another condition is that the subsidiary and parent firms have to belong to the same industry, in order to avoid cultural interferences based on differences in the culture of the industry of each firm.

Finally, regarding the present research, the unit of analysis is the top manager, for the following reasons: first, as Weber (1996) proposed as a fundamental condition for studying cultural differences, there must be contact between the members of both cultures. The subsidiary's top managers are in frequent contact with their partners in the parent firm, through negotiations, making plans and writing reports. Second, top managers play an important role in transmitting and shaping corporate signals to the other members of the

organization (Shein, 1985). They are charged with the transmission of their values and beliefs to the rest of organization, functioning as a connection between the parent and subsidiary firms. This is concordant with the appreciation of Weber (1996), who considers that the culture of the top managers could be a reasonable expression of the organizational culture of the overall firm. Another reason is that the top manager has been appointed by the firm amongst the individuals who best represent the value system of the majority (Chatterjee, 1992).

In order to avoid bias with respect to the positions in the hierarchy, it is very important to choose a respondent from the same hierarchical level (Otterbeck, 1981); for that reason we are very conscious to select only people from the hierarchy such as the President, Vice President or General Manager.

4.4 SAMPLE SELECTION

The sample population consists of subsidiary firms of Japanese, German, English and French MNCs. The parent countries were selected considering the degree of national culture dissimilarity, based on Hofstede's (2001) indices, with the Canadian index and also towards those of the parent countries.

For our sample selection, we use the directory compiled by the firm Dun & Bradstreet Ltd., the world's leading source for commercial information and insight on businesses, in its version published in 2005, which contains all the multinational firms listed by country. In selecting 4 countries, we searched the directory for MNCs with subsidiaries in Canada. After, we searched in the internet firm by firm in order to confirm its existence, using several mechanisms: first the web page of the parent firm then that of the subsidiary, but information was also collected from newspapers, specialized reviews, chambers of commerce, etc. Our database contains different data, such as: address, telephone, CEO's name, activities, e-mail addresses. In certain cases we called the firm directly in order to confirm and update certain data, for example if the CEO or President is the same as named in the website. Also, we particularly ensured to include only subsidiary firms which report to their headquarters located in the countries selected and not to another bigger Canadian subsidiary. The

information on the subsidiary was obtained from the website of each multinational or directly from the parent respondent. The fact that we used private and public actual sources of information allows us to compile a list of active subsidiaries, thereby reducing the possibility of a non-contact.

The research found 521 subsidiaries (205 of Japan, 72 of France, 102 of England and 142 of Germany) identified by name of the firm, address, telephone number, but for our research purposes we need the name of the CEO and if possible the e-mail address. After, the subsidiaries for which we didn't find the name of one of the top managers were eliminated from the data. This new depuration reduced the number to 250 subsidiaries, all with the name of the CEO, President, General Manager or Vice-President (74 German, 42 English, 90 Japanese and 44 French). The research found the e-mail addresses for 90 of these firms.

4.5 PRELIMINARY INTERVIEWS

The purpose of conducting preliminary interviews is to provide us with additional information in order to fine-tune our questionnaire in an attempt to increase the rate of responses and the quality of the information. This was conceived to allow us to modify any question deemed incomprehensible or ambiguous; we also obtain initial face validity of the item scales.

Once the sample determined, we sent a letter of presentation and after we contacted by telephone the secretary of the selected CEOs or General Managers in order to get an appointment for an interview. We were granted 4 direct interviews: 2 in Ontario and 2 in Quebec; 2 interviews by telephone (Ontario and Quebec); and 1 response by e-mail (Quebec). The interviews were semi-structured (the interview protocol is reproduced in appendix D); we chose this type of interview because it has been demonstrated that senior managers respond very well to semi-structured interviews (Marshall and Rossman, 1989). Six of the interviewed were identified as the CEO of the firm and one as the Vice President.

Direct interviews (with a President and a CEO) averaged 80 minutes; the telephone interviews were sensibly shorter at 35 minutes; and one of the interviewed asked to receive the interview protocol by e-mail and responded to it using the same mean. All the interviews

were conducted between April 1, 2008 and July 30, 2008. The questions were primarily open-ended such as, "In which ways is your firm's organizational culture different/similar to the organizational culture of the parent firm?", but we remained flexible in order to let emerging new interesting avenues arise during the interview.

The preliminary interviews were conducted in the subsidiaries located in the provinces of Quebec and Ontario, because of economic and time restraints. We took notes during our stay in the subsidiary, about observations of the site, particular patterns, and during the interview we took detailed notes but also recorded it, after having requested permission. We typed out the recorded interviews during the two weeks following the interviews, adding at the end of the interview our notes and perceptions. In order to minimize any problem with the interview data, we followed several steps: First, by focusing the interview on areas relating to our conceptual model; second, by interviewing the President, Vice President, General Manager of the subsidiary and I confirm that they are all closely involved with the issues discussed.

For the analysis of the qualitative interview data in chapter V, we take as a starting point for data classification, our conceptual framework. We investigate the relationships between concepts like emergent strategy, strategic planning, organizational culture distance, national culture distance and organizational performance and other concepts which are included in the questionnaire. In this part of the analysis, we follow Yin (1984) and compare our predicted pattern with the observed pattern. This procedure allows us to modify the relationship between the variables, if necessary, the causality direction of the relationship and discover new variables that could be incorporated into the study. Subsequently, seven interviews allowed us to enhance the richness of our conclusions and the discussion of our findings.

4.6 COLLECTING DATA

In our literature review, we found only two empirical studies measuring organizational culture distance, one is by Pothukuchi *et al.* (2002), who measure the organizational culture distance by asking the respondents to compare their company's culture with their foreign partner's culture, and the other empirical research is by Cui *et al.* (2006) who measure this construct, asking the manager, who is known as the interlocutor of the operational interactions between both firms, to compare its local organizational culture against that of the parent firm. We decided to follow the method used by Pothukuchi *et al.* (2002) and Cui *et al.* (2006), which measures the perception of organizational culture differences in the managers of the subsidiary firm most in contact with the parent firm, by asking them to answer questions which compare the organizational culture of the parent and subsidiary firms.

We surveyed a top manager of the subsidiary, preferably the CEO who interacts continually with the parent firm. Most of the participants are CEOs (18), Vice Presidents (5), General Managers (1), and not identified (19). We used two means for collecting data: first we used the e-mails available for sending a letter of presentation to the managers including a link to connect to the questionnaire online; in this way we received 19 responses. The second means used was the classical mail system, for which we prepared an envelope with a personalized letter of presentation (addressed to the CEO and signed by the author) on letterhead of the Department of Management of the ESG-UQAM, a copy of Dr. Bernard's letter of recommendation, the questionnaire and a return envelope. Furse and Stewart (1984) consider it important to mention the organization which sponsors the study and the title of the person signing the cover letter.

Considering that personalized invitation letters are suggested as a means to increase response rates (Harvey 1987; LaGrace and Kuhn 1995), a letter of presentation was sent directly to the CEO, President or General Manager of the subsidiary. After, we waited fifteen days before calling the managers in order to remind them about the questionnaire. Normally the secretary or assistant to the CEO is the person who was spoken to because of charged schedules, and this produced 24 responses. When we didn't get a response, we sent the same

questionnaire fifteen days after having made the first call, after which time we waited another fifteen days before calling again. We tried one more time and after that we considered the manager as a non respondent.

4.7 QUESTIONNAIRE DESIGN

A survey questionnaire was specifically designed to provide primary data for this study (Appendix C). The survey was developed by the author, under the guidance of Dr. Bernard. The survey instrument was pretested, adjusted and retested on the 7 respondents of the preliminary interviews. In the preliminary interviews, we asked target questions to assess the face validity of the scale items and the comprehensiveness of the items and instructions. During the questionnaire adjustment stage, minor modifications were made such as adding an “unknown” option to selected responses, rewording to clarify a question, or changing the order of the questions to increase the rate of response, by placing the most important questions first.

We minimized the problems regarding reliability and validity by utilising scales used in previous studies and which obtained acceptable results for these elements. The scale for measuring organizational culture distance is an adaptation of the Hofstede *et al.* (1990) questionnaire for measuring organizational culture, and following Pothukuchi *et al.* (2002), we selected the items which relate more to the subsidiaries firms. The scale for measuring planning and emergent strategy was taken from Anderson (2004). The two questions which allow us to measure the control over the strategic process in the subsidiary firm (subsidiary query section, questions 4 and 5): Decision-Making Authority over Daily Operations granted to the Subsidiary by its Parent Firm (DMAOP) and Decision-Making Authority over Strategic Planning granted to the Subsidiary by its Parent Firm (DMASP), were taken from Smotherman (2002).

The questionnaire uses the five-point Likert-type scale which has several advantages, one being that an odd number gives the respondent a neutral choice as an opportunity in case of incertitude. A very important characteristic for our research is that the Likert-type scale is quicker to complete than the other types of scales (Judd *et al.*, 1991), especially if the

respondents are senior managers who are normally busy and lack time. Regarding the language, the questionnaire was available mainly in English, but when needed we also had a French translation. However, this wasn't necessary because the top managers of foreign subsidiaries all have a good command of English, as it is used for international communications (Sumelius and Sarala, 2008; Welch *et al.*, 2002).

Considering that we sent our questionnaire to CEOs and Presidents of firms, it was important that the questionnaire be clear and concise. The questionnaire is divided into five sections, each one preceded by short and understandable instructions. The body of the questionnaire contains the organizational culture distance, strategy formation, performance, subsidiary and personal query sections. The survey asks neither sensitive nor confidential questions nor the name of the manager. The position of the manager and name of the firm are optional; it was highlighted that the name of the participant would remain totally confidential (there are 24 participants who identified themselves).

The survey begins with the cover letter addressed to the CEO. First, it includes a small presentation of the researcher, followed by the purpose of the study, the research topic, the usage to be made of the results, the availability of respondent feedback and finally the researcher's original signature, with telephone and addresses for communication. Second, the questionnaire begins directly with the organizational culture distance query section, which includes questions about the perception of the cultural distance between the parent and the subsidiary by the manager. Next is the strategy formation query section; this section contains questions about the strategy formation process, strategic planning and emergent strategy. The performance query section contains questions about the organizational performance of the firm and also about its performance compared to another firm in the same sector. The subsidiary query section contains questions about the number of contacts between the subsidiary and the parent firm, the number of expatriates working in the subsidiary, the kind of ownership, constitution, age, number of employees and two questions about the control exerted by the parent firm over the strategy-making process of its subsidiary. Finally, there is the personal query section, which asks demographic questions about the respondents and the

identification of the participant (optional), as well as a question asking if the participant would accept to include his name in later publications (only one positive response).

We begin the questionnaire with the organizational culture distance query section, in an attempt to get the respondents committed to the study, for them to want to continue filling out the survey. A copy of the questionnaire and its covering letter are reproduced in Appendix C of this document.

4.8 QUESTIONNAIRE DISTRIBUTION

The rationality of the questionnaire distribution is first of all to ascertain the full name of the CEO, Vice President or General Manager, in order to send a package including a personalized cover letter of presentation originally signed by the author of this dissertation, as according to LaGrace and Kuhn (1995) and Harvey (1987), personalized invitation letters help to increase the response rates. The package also includes a copy of Dr. Prosper Bernard's letter of recommendation, the survey questionnaire and a return envelope. In the cases that we had the personal e-mail address, we sent an e-mail presenting and describing the survey, including a link for the manager to do the survey online. This e-mail was sent through UQAM's web mail in order for the author to be identified as a student of the university.

First we began by sending the 90 e-mail surveys, the answers to which went directly to the webpage created expressly for this reason. After fifteen days, we checked the names of the respondents, after which we resent the same e-mail one more time, and we erased from the list the respondents who had previously been identified. This procedure took us 2 months to complete the e-mail survey, from June to July, with unforeseen events such as the summer holidays, which obliged us to wait until August for an answer from the managers who were returning from their holidays. In August, we began with the classical mail survey, we sent out 160 envelopes; this classical way of doing a survey took us another 2 months.

4.9 QUESTIONNAIRE COLLECTION

The e-mail survey answers were collected directly from the designed website; we checked the progress of the answers on a daily basis. When the time had expired, we closed the survey and downloaded all the results onto an excel page. In the case of a classical mail survey, first we sent out the questionnaires to the subsidiaries and after a lapse of 15 days, we contacted the managers who had failed to respond to the questionnaire, asking for their response.

If after two weeks we still hadn't received a response, we resent the same questionnaire, and the following week we tried to make contact by telephone with the manager who didn't respond. The time limit for this step was 2 months or 4 attempts, after which the manager was considered a non-respondent.

4.10 MEASURES

4.10.1 Independent variable

4.10.1.1 National Culture Distance

We used the Kogut and Singh (1988) index of national culture distance, as these authors determined with a finality of measure the national culture distance between two countries using only one index. In their research on the national culture influences in the choice of the entry mode of a multinational, they advanced the hypothesis that the more distant the national culture of the MNC's country is from the national culture of the United States, the greater the probability that the choice will be a joint venture. For the calculus of the index, they measured the differences between Hofstede's four dimensions between the parent country and the United States. They adjusted each dimension, by the differences between the variances and then averaged them out arithmetically. We adapt the Kogut and Singh's (1988, p. 422) formula for the case of Canada as a host country; this provides the following formula:

$$CD_j = \frac{\sum_{i=1}^4 (I_{ij} - I_{iu})^2 / V_i}{4}$$

where CD_j is the cultural distance between a j th country and Canada, I_{ij} is the index for the i -th cultural dimension and j th for the country; V_i is the variance of the index of the i -th dimension and u represents Canada.

Critics of the Kogut and Singh index are numerous. Evans and Mavondo (2002) disagree with the fact that the index is established relative to the United States; they think the index should be directly established between the two countries, parent and foreign. The use of Hofstede's index, which is supposed to be stable, also causes disagreement when considering the criticism that the culture of many nations will change over the next 30 years of continuous sociopolitical changes. Slangen's (2006) criticism was based on the fact that the index depends on the national cultures of two countries, and the fact that any variation in the national culture of one country could influence the index.

Evans and Macondo (2002), criticized the fact that the differences between countries are based on the perceptions of a foreign country's attitudes and values; they propose a different way to measure cultural distance, which is not one based on the differences between parent country and host country, but rather on work-related values which are, according to them, an objective measure of cultural distance. Some of the criticism of the Kogut and Singh (1988) formula is that they assume that Hofstede's dimensions are the only true factors which represent national culture, and the claimed additivity, linearity and normal distribution of these dimensional scores.

4.10.1.2 Organizational Culture Distance

For measuring the organizational culture distance, we measured the perception of the organizational culture differences of a top manager from the subsidiary, one with the highest level of contact with the parent firm. The scale proposed is an adaptation of the Hofstede's scale (1990) of measuring organizational culture, but in our case we propose the questions as

a comparison between the two firms, and we selected from Hofstede's (1990) original scale, the items which are most relevant to the subsidiary firms.

The scale is composed of six dimensions, each of which consists of three items, resulting in a total of 18 items. The six dimensions are: process vs. result, employee vs. job, parochial vs. professional, open vs. closed, loose vs. tight control and normative vs. pragmatic dimension. These dimensions are supposed to measure the difference of the organizations in their management orientation (Pothukuchi, 2002). Following is an explanation of these dimensions:

The process versus result: while the first is focused on a rigid division and allocation of tasks, orientation in results is focused on the overall task. These differences in management orientation could lead to conflicting positions about goal achievement, career systems, power structure and job roles (Pothukuchi, 2002).

The employee versus job: this dimension contrasts two positions, the first oriented toward the employee against the fact of getting the job done. According to Pothukuchi (2002), these differences could be related with the different styles of interaction between superiors and subordinates, causing problems in the organizational commitment and communication.

The parochial versus professional: contrasts two viewings, the first of which considers that employees derive their identity from the organization, and the second that identity is derived from the type of job. These differences evolve into two types of management which cause problems of interaction between both organizations such as conflicts related to the job structure, reward systems and job expectations (Pothukuchi, 2002).

The open versus closed: this difference is based on communication practices and climate. While the first is associated to openness on controversial topics, the second is related to more formalization and rigidity. The first promotes the discussion of new ideas, the second stays with the same formal schema.

The loose versus tight control: this dimension is related to the internal control of the enterprise, moving between a rigid way of controlling and a more flexible system. These differences could cause problems in the relationship between the two firms, especially relating to the trust between the managers.

The normative versus pragmatic: contrasts two orientations of the management rule, oriented or normative, and is customer oriented or pragmatic. The differences in practices and administrative procedures between both partners could cause conflicts to arise between them (Pothukuchi, 2002).

Weber (1996) noticed that several studies using questionnaires to measure perceived organizational culture (e.g.: Hofstede *et al.*, 1990) and had perceived cultural differences (e.g.: Dong and Glaister, 2007; Chatterjee *et al.*, 1992; Cui *et al.*, 2006; Weber, 1996; Pothukuchi *et al.*, 2002), were found to have high validity and reliability. Another advantage that Weber (1996) and Rentsch (1990) state is that people's attitudes and behaviours are determined by their perceptions rather than by the objective situation. This is because perceptions involve how members of the culture interpret and define human actions in the organizational life and prescribe the limit of acceptable behaviour (Chatterjee, 1992). Respondents were asked the extent to which the organizational cultures differ between the subsidiary and parent firms, which is measured on a five-point scale (1 = very little difference; 5 = very great difference).

Finally, and following Weber (1996), an index of cultural differences is computed by summing up the scores of the 18 items and averaging them out.

4.10.1.3 Decentralized Strategy Emergence

We used the measure proposed by Andersen (2004), which is based on Aiken and Hage's item of decision authority (Dewar *et al.*, 1980), but modified for measuring strategic decisions which are new business activities, product development and policy changes. This study uses a four-item scale to measure decentralized strategy emergence. The scale was used

by Andersen (2004) and was shown to have a good validity and reliability (Cronbach's alpha of 0.74). Subsidiary managers were asked to indicate their level of agreement (where 1 = strongly disagree and 5 = strongly agree) with the following statements (Appendix C: subsidiary questionnaire, strategy formation query section: items 5-8).

4.10.1.4 Strategic Planning

According to Andersen (2004) and Boyd and Reuning-Elliott (1998), the measure of strategic planning is related to the stress that the firm puts on strategic goals, action plans, strategic control and mission statements. This study uses a four-item scale to measure strategic planning; the scale was used by Andersen (2004) and was shown to have good validity and reliability (Cronbach's Alpha of 0.82). The following are the items which comprised the strategic planning scale (taken from subsidiary questionnaire, strategy formation query section: items 1-4 in Appendix C). The item anchors are: 1 = strongly disagree, and 5 = strongly agree.

4.10.2 Dependent variable

4.10.2.1 Subsidiary performance

Dess and Robinson (1984) suggest that the subjective measures of organizational performance can replace the objective measures of return on assets and growth in net sales, and that replacement is recommended especially when financial data is unavailable and severally restricted, as in the case of a subsidiary being a private firm that isn't listed on the stock exchange. In addition, no one is better placed than the CEO of the subsidiary to judge how the firm is performing.

Our questions are based on the review of literature in chapter 2 and on the preliminary interviews with the subsidiary managers. Firstly, we use a five-point subjective managerial assessment of subsidiary performance (from 1 = poor to 5 = outstanding), a subjective

evaluation of the subsidiary's performance on the following variables (performance query section: questions 1a to 1f): overall performance, sales growth, market share, profitability, management and new product introduction.

An exploratory factor analysis with Varimax rotation was conducted using two components: the first one included overall performance, sales growth, market share, profitability and management, and the second component included new product introduction; this confirms the results of the reliability analysis. In analyzing total variances, the first factor 52 % and the second factor 18 % were extracted for a total of 70 % (Table 1). Considering these results, the item 'new product introduction' was deleted from the measures scale of subsidiary performance. The reliability analysis shows the alpha Cronbach with the five items at 0.819 which is better than the Alpha Cronbach obtained for the six items (0.791). Finally, the subsidiary performance (SP) will be obtained from the average of overall performance, sales growth, market share, profitability and management.

Table 1 : Factor Loading

	F1	F2
Overall Performance	0.790	-
Sales growth	0.525	0.615
Market Share	0.586	0.552
Profitability	0.852	-
Management	0.742	-
New Product	-	0.864
	52%	18%

Cut-off value = 0.5

4.10.3 Control Variables

The variables that can potentially affect subsidiary performance are organizational size and age (Park and Ungson, 1997). There are also other variables that could affect performance, variables that affect the cultural distance between both firms, thereby influencing the performance of the subsidiary. These variables are:

- a) Subsidiary size (NE), measured as the number of employees in the subsidiary firm; the effect based on size can be explained by the greater availability of resources on the part of large firms, which may have a positive effect on the performance (Fey and Beamish, 2001);
- b) Time of operation (TO), measured in years, because older firms have established a learning process through all their years of operating in the host country, which involves knowledge of the rules and norms of the market, and possibly a certain degree of cognitive legitimacy because it is already known to the host environment (Fey and Beamish, 2001);
- c) Number of expatriates (NEX), which is measured as the total number of expatriates working in managerial charges in the subsidiary;
- d) Frequency of contact between the parent and subsidiary firms (FCPS), is measured as the average number of contacts between parent and subsidiary managers, which could be by e-mail, telephone, fax, etc. This variable affects the level and process of acculturation and potentially the performance (Pothukuchi *et al.*, 2002);
- e) Entry mode choice (EMC), indicating how the subsidiary was constituted: greenfield start-up, joint venture or acquisition; a Joint Venture with a Local Partner may influence the transfer of local knowledge and the attainment of legitimacy;
- f) Subsidiary's ownership level (SOL), based on the level of ownership, the parent firm will have an increasing participation in the strategy formation of the subsidiary. This is

a six-category variable coded 2 if the parent firm holds a minority participation; 3 if ownership is equal, 50 percent; 4 if it is majority; and 5 if it is wholly owned;

- g) Industrial sector (IS). The role of the industry on the firm's performance is highlighted by Luo and Park (2001), who state that an imperfect market structure characterizes the emergent economies' influence on firm performance;
- h) Decision-making authority over daily operations granted to the subsidiary by its parent firm (DMAOP), the parent firm delegates operational decision-making authority which is related to medium-level managers' decisions and emergent strategy; and
- i) Decision-making authority over strategic planning granted to the subsidiary by its parent firm (DMASP), this variable benefits the development of knowledge in the subsidiary and contributes to corporate knowledge development (Sumelius and Sarala, 2008).

4.11 METHODS OF ANALYSIS

Analysing, testing and evaluating the data gathered for this study address the research questions formulated for this dissertation. We also analyse the degree of influence of the level of contacts between the parent and subsidiary firms, the role of expatriates, and the degree of control of the parent firm in the strategy formation process in the subsidiary.

4.11.1 Power Analysis

According to Cohen (1992), power analysis exploits how the relationships among sample size, significant criterion and population affect size. Reviewing the reported correlations between the variables of interest, we find that the population size is considered to be medium by Cohen (1992). For example, Andersen (2004) reported a correlation of 0.398 between organizational performance and strategic planning, a correlation of 0.234 between economic performance and decentralized strategy emergence, and a correlation of 0.156 between

strategic planning and decentralized strategy emergence. Boyacigiller (1990) reported a correlation of 0.15 between cultural distance and expatriate staffing.

In cases where the desired sample size is not achieved or when the study is an exploratory one, Cohen (1992) suggests using the correlation $\alpha = 0.10$ as appropriate. At $\alpha = 0.10$, with four variables, and a medium population effect for size, our sample size of 43 results in a power of 0.50 (Cohen 1977). This indicates that we have a 50 % chance of detecting the effect that we believe to exist in the population, and a 50 % chance of engaging in a Type II error by not finding any evidence of the false hypothesis.

Although this power is lower than the desired power level of 0.80, it still compares favourably to the median power of published studies in behavioural sciences, which is estimated to be around 0.37 (Seldmeier and Gigerenzer 1989).

4.11.2 Preliminary Analysis

All the values of our database are subjected to SPSS (Version 17) analyses. First of all we make descriptive statistics of all variables to determine the distribution percentages, frequency, means, modes, standard deviations, skewness and kurtosis measures. In addition, we perform t-tests in order to measure the statistical significance of the differences between the means of quantifiable variables to obtain an overall comparison of the data recorded. Two-sample independent t-tests are used to determine if the mean of a single variable in one group differs from the expected value of that variable in another group.

4.11.3 Specific Statistical Tests

Regression and correlation analyses are used for measures of association between two continuous variables. The Pearson Product-Moment Correlation measures the strength of the linear relationship between two quantitative variables. The Pearson Correlation is performed on all continuous variables of our database in order to determine if any significant relationship exists between them.

Regression Analysis is used to measure the relationship between independent and dependent continuous variables. Specifically, it will measure the degree and direction of the association, the statistical significance of the relationships, and it will assist the development of a model to compute values of dependent variables (Alreck and Settle, 1985).

To analyse moderating effects, we use a hierarchical linear regression analysis, this procedure is also used by Andersen (2004) and Colakoglu and Caligiuri (2008) for testing the effect of a moderating variable in a relationship between the independent and dependent variables. First, we analyse the moderating and independent variables in relation with the dependent variable. To continue, we have to ensure that none of the variables have a main (or direct) effect on the dependent variable. Second, we enter the period of interaction, multiplying the independent and the moderating variables. The moderating effect is present when the addition of the interaction term to the model that contains the independent and the moderating variables significantly increases R^2 , and the coefficient of the interaction terms is significant.

CHAPTER V

QUALITATIVE ANALYSIS

This chapter presents qualitative results derived from semi-structured interviews conducted with top managers of 7 subsidiaries drawn from this study's sample. There are three subsidiaries of French parent firms; one of a Japanese MNC, two of German MNCs and one with an English parent firm. Four interviews were conducted in person (UN, OS, HS, CA), two by telephone (AN, SC) and one was answered by e-mail (AR). The summary of these data is presented in Table 2 and also the subsidiaries are classified according to their size: three of them are large firms, three are medium firms and only one is a small subsidiary firm. The size was measured using the classification established by Baldwin *et al.*, (2004) for Canadian firms, which says that small firms have 0-100 employees, medium firms 101-500 employees and there are 500 or more employees is a large firm.

The purpose of these interviews is to investigate the relationships between the independent variables (national culture distance, organizational culture distance, emergent strategy, strategic planning) and the dependent variable (subsidiary performance). This procedure provides us with information which contributes to a greater understanding of the relationships between these variables.

In order to help in understanding the decision-making process in the subsidiary firm, information gathered from the subsidiary firm about its organization and its decision-making process is included prior to the presentation of the results. The results are presented in the discussions on each construct of this study's model (see Figure 1), beginning with organizational culture distance. Detailed explanations on the methodology used for this qualitative study, were presented in chapter 4.

Table 2 : Summary of firms interviewed

Subsidiary name	Parent country	Interviewee	Nationality	Industry	Size
UN	Germany	CEO	German	Manufacturing, wood products	large
AR	England	VP	Canadian	Mining	large
AN	France	CEO	Canadian	Manufacturing, food products	large
OS	Japan	CEO	Canadian	Manufacturing and sales auto parts	medium
HS	France	CEO	French	Manufacturing, aerospace parts	medium
SC	Germany	CEO	Canadian	Sales, heating equipment	medium
CA	France	CEO	Canadian	Banking	small

The German subsidiary (UN) working in the wood products business is the regional headquarters for North America, this strategic position gives it some autonomy because it has its own resources, but at the same time it is very important to the MNC and therefore requires special attention. This subsidiary has four other subsidiaries in Canada and the United States. The CEO reports directly to the German headquarters and he is a German national. This subsidiary was formed in 2005 after the acquisition of another German subsidiary. The firm has one thousand employees and the CEO has been part of the firm since 2005. The decisions are taken by the management team composed of the CEO, CFO and COO. Decisions which cost more than two million Canadian dollars need the approbation of the German headquarters. The middle level managers participate in the strategy formation because they are part of the strategic team which counts between 15-20 managers.

The large English mining subsidiary (AR) is head of an important business division; the specialization of the subsidiary in this kind of business reduces the influences from headquarters, the reasons being the availability of its own resources and the lack of specialized knowledge at headquarters about this business. In fact the firm is a global MNC which since 2007 is part of another English mining group.

Another large firm is a long established (32 years) French subsidiary (AN) manufacturer of food products; this subsidiary is responsible for the production and distribution of its products to the Canadian market and reports directly to the French headquarters. This subsidiary has more than 500 employees working for it, and with annual revenues of more than \$250 million. The CEO is a Canadian national and has been working since 1999 for this company. AN owns one of the most remembered brands in Canada, the subsidiary sells products with the parent firm's brand but it also sells its own local brands.

For the Japanese subsidiary (OS), its main activity is the sale of Japanese auto parts and it also has a Canadian factory to produce some of them. This firm has contacts with both the Japanese headquarters for technical subjects and the American subsidiary for commercial and financial subjects. The general manager is a Canadian national, who has been working for 15 years with the firm. In 1998 it was established, and it started as a sales and distribution centre, and later it evolved to production. The offices and plant are decorated with designs and pictures drawn from the Japanese culture. The relationship with the parent firm is top-down, but inside the subsidiary the atmosphere is more democratic, Canadian style. To prepare the strategic planning they receive instructions from Japan regarding the requirements and profit levels; the headquarters sends managers to assist the subsidiary managers. In the case of emergent strategy, the middle level managers participate with their ideas and they receive information from the general manager.

The French subsidiary (HS) is a manufacturer of aerospace parts; it is the subsidiary of a large French group specialized in aerospace products, but its relative small size within the MNC is because this subsidiary is dedicated to high technology parts which require more qualified people than quantity. This subsidiary reports directly to its French headquarters. This subsidiary was implanted 20 years ago, because of the importance of the Canadian market (4th in the aeronautical world industry). The CEO has been working in this MNC for 25 years, but only two years for the Canadian subsidiary. The parent firm proposes a strategic frame which is used by the subsidiary firm for proposing its strategy which is complementary to the parent firm's strategy. The middle level managers participate in the direction of the firm and in the elaboration of strategies.

The German subsidiary (SC) of a large MNC market leader for infrared heating equipment is dedicated basically to the import and sales to distributors of the production from its headquarters; another of its responsibilities is the technical support to the customers. This firm reports to the subsidiary in the United States and also to the German headquarters. The subsidiary firm has almost 30 years of operating on Canadian soil. The CEO is a Canadian national.

Finally the Subsidiary (CA) of a French banking firm is a small firm which is looking to enhance its position in Canada. In reality the firm is small in personnel, but big in financial affairs. It reports to the United States headquarters for regional matters, but it also has a regular contact with the French headquarters. Its autonomy is very restrained and it is basically an operator of the strategies from headquarters. This firm has been operating in Canada since 2005. The subsidiary makes recommendations about strategy and finance, but the decisions are taken at headquarters. The management style in the Canadian subsidiary is participative, taking into account the opinions of the other managers. The performance is based not only on the accounting value, but it also takes into account the added value to the MNC network provided by the subsidiary firm.

5.1 ORGANIZATIONAL CULTURE DISTANCE

The key relationship examined in this study is the moderating effect of the OCD in the relationship between the components of strategy formation and subsidiary performance. Thus, the interviews conducted with the top manager were aimed at understanding how the influence of the OCD was viewed by the manager. From the interviews, it became clear that managers consider the organizational culture distance important for the performance of the firm. For example, three large manufacturing subsidiaries (UNI, AN and AR) consider that the adherence of the subsidiary to the same values as the parent firm influences positively on the performance of the firm and it is a comparative advantage for the subsidiary firm.

The Japanese subsidiary firm (OS) considers that the organizational culture differences affect negatively the performance of the firm, in the sense that taking decisions in Japanese

parent firms is more procedural, takes more time, while the decision-making in North American firms is faster. This means that the time wasted could cause the subsidiary to lose good business opportunities. They acknowledge the negative influence in some cases of the organizational culture differences; in the strategy formation of the subsidiary firm, sometimes the subsidiary doesn't understand what the parent firm is asking for, or the sense of timing and opportunity is different in the subsidiary firm than in the parent firm. These differences are, however, attenuated with the passing of time and both subsidiary and parent firms expend great efforts to understand their partner and improve communications.

One of the problems recognized by the managers is the implantation in the subsidiary of the business model of the parent firm, creating problems due to the differences between the two cultures. The CEO of CA considers that it is their job to modify or adapt the model to the local reality; he provides us with his point of view on the organizational culture differences with the parent firm:

Effectively each one has differences and that is where the local management, that the people at the local level must find the necessary adaptations to allow them to operate efficiently inside the framework of the model and the group's culture. Nor can we have 60 different models according to each of the cultures [...], because we won't change the group's culture.

In saying this he recognizes that organizational culture distance is more important than national culture distance because in the end, the firm has to adapt itself to the organizational culture of the parent firm.

5.2 NATIONAL CULTURE DISTANCE

From the interviews, we can deduce that the opinions are divided: there are some managers who consider that national culture differences are irrelevant, given the international character of both parent and subsidiary firms. For example for a French manufacturing subsidiary (AN), the influence of national culture differences is negligible because there are no French people working in it. In a high technology French subsidiary (HS), the national culture differences are manifested through the differences in the degree of engagement in the

firm between the Canadian worker and the French worker, which affects the profitability of projects in high technology because of the loss of trained technicians which have gone to other firms.

The Japanese subsidiary (OS) seems more affected by the national culture differences because they don't have a Japanese manager working in Canada. This result is concordant with the national culture distance calculated by Hofstede (2001), from Appendix A; we note that Japan has the largest NCD with Canada of the other 3 countries. A statement made by the CEO of a Japanese subsidiary illustrates the effect of national culture distance in this subsidiary:

There are some limitations and problems with the culture differences. Communication between us and Japan is not great, it doesn't hurt us in a big way, but sometimes on smaller issues it slows things down and limits some opportunities.

The problems in communication in OS especially limit the implementation of emergent strategies, which can be identified as "smaller issues and opportunities"; this negative effect is avoided in the greater part by the Japanese subsidiaries which designate Japanese top managers who know the language and the culture of Japan.

5.3 STRATEGIC PLANNING

From the interviews we distinguish two cases: first, the subsidiary firm proposes the strategic planning and the parent firm gives its final approbation; and second, the parent firm establishes the strategic framework which comes from its own global strategy and the subsidiary firm implants their plan. In both cases, any major change proposed in the strategic planning of the subsidiary firm has first to be consulted on with the parent firm. In both cases the importance of the parent firm is highlighted. The first case presents itself particularly in subsidiaries which represent a large firm with more autonomy, human resources for developing its strategic planning, where the subsidiaries inside the multinational organization are very important economically and strategically. Contrarily, the second case involves medium and small subsidiaries without enough autonomy, human resources, and their

importance inside the schema of the parent firm is reduced. In the second case, a small-sized French banking firm (CA) tries to adapt the strategic model of the parent firm for reasons of efficiency but this isn't easy, and the differences between the firms oblige the managerial team to make additional efforts in order to find the adequate adaptations for the strategic model to function correctly.

On the other side, the CEO of a large German manufacturing subsidiary (UN) provided a view which typically represents the first case (the subsidiary firm proposes the strategic planning and the parent firm, analysis it and gives its final approbation):

We prepare our strategy every year, we update the strategic plan. We used to present it together with the first budget draft, and a discussion ensued. Now first of all, we prepare the strategy and we inform the Germans or the shareholder in some cases whether we are planning any major acquisition projects. In such a case, obviously, everything may be put in the balance in terms of strategy.

It is important to highlight that UN is a large subsidiary and also a regional centre for the parent firm; it controls more resources and has more autonomy than other large and medium-sized subsidiaries.

5.4 DECENTRALIZED EMERGENT STRATEGY

In the small and medium size subsidiaries, the mid-level managers have a role which is more one of execution than of strategy. However in the large firms, the participation of the mid-level managers is more appreciated as they direct the strategy and effectively run the business. In a large British mining subsidiary firm (AR), the mid-level managers participate through an executive committee that reports and makes recommendations to senior management. Another medium-size German subsidiary (SC) firm highlights that the contribution of the mid-level managers is good because they are closer to the markets and in a position to propose new ideas during the meetings of the strategy groups. In another case, in a French medium-size subsidiary firm (HS), the contribution of the mid-level managers occurs within a strategy team which received its empowerment from the CEO, who is in charge of the strategic decisions and of any arbitration deemed necessary. In the Japanese

medium-size subsidiary (OS), the mid-level managers are involved in the strategy formation and their contribution is to bring forth ideas about how to achieve the strategy, what is needed to accomplish it, in what time frame or even whether it can be done.

For a large German manufacturing subsidiary (UN), the interaction of the mid-level managers with the parent firm is positive for the development of the subsidiary, but most of these contacts are related to operational matters more than to strategic ones. The collaboration of the mid-level managers on the strategy occurs inside their strategy group. There are two strategy groups which are divided into three sections, each one headed by the vice president of the section; they have to prepare the strategy plan for discussion with the CEO and the strategy team.

The CEO of a large French dairy manufacturing subsidiary (AN) voiced his opinion about the mid-level managers vis-a-vis the emergent strategy in the strategy formation process of the subsidiary:

These people are connected to the daily business operations and for each business unit, this team, its vice-president, must consider the master plan. It is their input which assists the director and the vice-presidents to make suggestions regarding the strategy of the enterprise.

The direct relation of the medium-level managers with the market and the suppliers is highlighted in this statement; their contribution to emergent strategy is considered positive by all the interviewed and they participate in their strategic groups by bringing forth ideas from outside the firm.

5.5 SUBSIDIARY PERFORMANCE

A CEO of a large German subsidiary firm (UN) considers that the similarities between the two organizational cultures have positive effects in the performance of the firm; his opinion on the influence of the organizational culture differences follows:

I think some similarity is important, I mean we did change the culture slightly to get this similarity in 2005. The culture was more different before 2005 than today. To get this similarity, we made sure that the performance was more metrics driven, more transparent and with a greater team approach.

A large English mining firm (AR) considers organizational culture as an important determinant of subsidiary performance because it provides a common focus on a product line, and a cooperative culture is a necessary component for creating value. In its case, given the differences in business focus between the subsidiary and the parent firms, the organizational culture differences are considered to be irrelevant to the subsidiary's performance. However, the participation of the mid-level managers is considered to be positive for the performance of the firm, in the sense that it allows running the business effectively and contributes new ideas to the strategic direction.

The CEO of the medium-sized French subsidiary (HS) operating in the field of high technology considers that the subsidiary firm is independent enough; for this reason he considers that the cultural differences with the parent firm don't affect the performance of the subsidiary. This could be explained by the global character of the aerospace industry, with people from everywhere working in the same place, but at the same time there is a difference in the decision-making process, which can influence the performance of the firm. Decision-making in the Canadian subsidiary is more direct, they talk about business and strictly business, while in the French parent firm there is a tendency to discuss and mix politics with business, with the effect that the decision-making within the French parent firm is slower.

Contrarily, the small French subsidiary CA considers that differences between parent and subsidiary firms affect the effectiveness of the decisional process, because decision-making becomes too slow, which causes the loss of business opportunities.

For the large French subsidiary (AN) manufacturer of dairy products, the coherence between the values of the subsidiary firm and the values of the parent firm is very important, allowing the subsidiary to reduce its efforts in developing systems or processes which are

have already proven successful in the parent firm; as the CEO said, “we must not reinvent the wheel”.

For the large subsidiary firms which participated in this qualitative research, the organizational culture distance with the parent firm is very important as a determinant of the performance of the subsidiary firm. Contrarily, the medium firm considers the importance of the organizational culture distance in the performance of the firm at a lower level. The national culture distance is not mentioned, because as was mentioned previously, it is not considered relevant by the interviewees.

5.6 CONCLUSIONS

The first relevant finding concerns the influence of the organizational culture distance in the performance of the firm; all the managers interviewed agree on the positive importance of approaching the same values as the parent firm, which confirms our hypothesis 3. In the case of national culture differences, most of the interviewed considered this irrelevant based on the global character of the firm. It was only important in the case of the Japanese subsidiary, but it is important to highlight that the Japanese subsidiary (OS) had a Canadian CEO, which is not common. Normally Japanese subsidiaries avoid this cultural problem by appointing a Japanese CEO.

The strategic planning and the emergence of new strategic ideas are considered positive for the performance. However, the effect of the emergent strategy is indirect because the middle-level managers normally act at the technical or operative levels. This means that the emergent strategic ideas flow to the strategy groups, after which they must stand up to the strategic direction of the CEO and other top managers. Our conclusion is that emergent strategy is perceived as affecting positively the performance of the subsidiary because it emerges from operational levels which are closer to the markets. The emergent strategy will be important for the performance in the measure that it can be accepted and applied by the top managers.

In the large subsidiaries, the emergent strategies move from the intermediate level to the strategy group, where they have more possibilities of being applied. Hypothesis 1b relating to national culture differences is rejected according to the statement of the managers, but in the case of the organizational culture differences it is considered important although its influence is not very clear (hypothesis 1a) because the contact of mid-level managers with the parent firm is reduced to questions and technical assistance.

In the case of Strategic Planning, we obtained the following results: the medium-size subsidiaries merely implant the strategic planning sent by the parent firm, but the cultural differences influence the implantation of this strategic model, especially since each model is established at first for a different market (parent country) with different cultural characteristics. The large subsidiaries have the capacity to build their own strategic models but after they require the approval of the parent firm. In this situation, the effectiveness of communications and of the transfer of knowledge is influenced by the cultural differences between both firms. Large subsidiaries because of their importance in the multinational network could be more affected by the organizational cultural differences because of their greater degree of interaction with the parent firm. This affirmation partially supports our hypotheses 2a and 4a but is rejected in the case of hypotheses 2b and 4b related to national culture differences because it is considered as irrelevant to most of the managers.

CHAPTER VI

RESULTS

The overall purpose of this research is to test the influence of the cultural distance on the strategy formation model formulated by Andersen (2004). The following chapter describes the primary data gathered for this study, the statistical analysis of the data and our interpretation of the findings. The independent variables used in this study can be divided into two groups: cultural distance and strategy.

The cultural variables are organizational culture distance (Hofstede, 1990) and national culture distance. The strategic variables are based on Andersen's (2004) strategy formation model: strategic planning process and decentralized strategy emergence. The variables (subsidiary performance, organizational culture distance, strategic planning process and decentralized strategy emergence) stem from responses to a survey conceived especially for this research. Secondary data (national culture distance) derive from Hofstede's (2001) national culture dimensions and Kogut and Singh's (1998) cultural distance construct.

The statistical software utilized for the analysis is the Statistical Package for the Social Sciences (SPSS) Graduate Pack, version 17.0. The results have been verified by Mr. Bertrand Fournier of the Consulting Service in Data Analysis (SCAD) at UQAM.

6.1 DATA SAMPLE

A total of 521 subsidiary addresses representing small medium and large Japanese, French, British and German MNCs were gathered through library and internet research. Electronic mailing addresses accounted for 90 of the total number. 271 subsidiary addresses were not sent a survey for one of the following reasons: their direct relationship was with another subsidiary (American or Canadian), their addresses were duplicates of those we had

previously sent the survey to, or because we didn't get the name of the CEO or a top manager. 250 surveys were sent out: 90 by e-mail and 160 by regular mail. In total, the German subsidiaries were sent 74 surveys, the English subsidiaries 42, the Japanese subsidiaries 90 and the French subsidiaries 44 surveys.

There were 46 responses from the survey mailings which gives 18.4 % (46/250) return rate, including usable and non usable responses. E-mail surveys returned 20 responses, a 22.2 % (20/90) response rate. Regular mail surveys returned 26 responses, a 16.25 % (26/160) response rate. One e-mail survey was returned incomplete and unusable for our study. One regular mail was returned unopened because the subsidiary's address was wrong or the firm didn't exist, despite our research on the internet. Another regular mail was returned incomplete and we later ruled it out because it lacked sufficient data to effectuate a comprehensive analysis. Another incomplete survey was resent to the respondent who had identified himself in the survey and he later returned the survey properly filled out.

The remaining forty three (43) survey responses yield a response rate of 17.2 % (43/250) overall acceptance rate. Of these usable surveys, 19 were returned by e-mail and 24 were returned by regular mail. The acceptance rate for e-mail surveys is 21 % (19/90) and the acceptance rate for regular surveys is 15 % (24/160). Our final response rate of 17.2 % compares to the 10-12% response rates typical for mailed surveys to CEOs of American firms (Hambrick *et al.*, 1993, p. 408; Pearce and Zahra, 1991), and compares favourably with response rates reported in cross-cultural studies of top management (e.g. Norburn, 1987). While the response rate of 17.2 % is low, it may be deemed reasonable considering the group targeted: namely the CEOs of Canadian subsidiaries of multinational firms and hence, very busy people.

6.2 DATA ANALYSIS

6.2.1 Descriptive Statistics

The sample database contains respondent data from forty-three subsidiaries of English (11), French (10), German (9), Japanese (10) and American (3) MNCs. Although American subsidiaries were not part of our initial sample, three American subsidiaries were contacted because the parent firm underwent recent changes in ownership which weren't detected during our previous research.

The Canadian subsidiaries of the five parent nations are engaged in seventeen separate industries which can in turn be divided into two general categories: manufacturing and services. The manufacturing category includes: consumer products, automotive parts, aerospace parts, tools, furniture, security industry, construction, mining, pharmaceutical, electronics and oil & gas. The services category includes: consumer products, information technology, retail, media entertainment, video games, telecommunications, logistics, food services, facilities management, healthcare, oilfield services, wholesale trading and financial services (banking, insurance, investment management).

Each of the five parent nations is involved in both manufacturing and services. The Japanese subsidiaries are involved in entertainment, electronics, tool manufacturing, automotive parts, wholesale, retail and food processing. The German subsidiaries are involved in financial services, food, healthcare, consumer products, media and entertainment. The French subsidiaries are involved in video games, facilities management, oil & gas, consumer products, banking and aerospace. The English subsidiaries are involved in food services, oil, retail, security, oilfield services and mining. The American subsidiaries are involved in oilfield services, financial services and manufacturing.

6.2.2 Reliability of the Variables

The reliability of a variable is defined “as the correlation between the variable as measured and another equivalent measure of the same variable” (Cohen *et al.*, p. 55). For estimating the reliability of the variables, the Cronbach Alpha method was used. One of the advantages of this method is that the coefficients are reported to make more rigorous assumptions than factor analysis (Carmines and Zeller, 1989). In the case of experimental research in social science, a low reliability coefficient of 0.5 or higher can be accepted as Hofstede (1980) accepted measures with 0.5 and higher reliability coefficients. All measures in this study exceeded this threshold.

Table 3 : Alpha Cronbach

n=43	Alpha Cronbach
OCD	0.873
NCD	0.791
SP	0.819
SPP	0.699
DSE	0.658

6.2.3 Validity of the variables

Construct validity exists when the empirical association between two variables is consistent with the theoretically specified association (Bollen, 1989). Measures used in this study were adapted from previous studies that had already tested measurement validity. The measurement models of all constructs were tested using exploratory factor analysis, and for the variable OCD the confirmatory factor analysis.

Exploratory principal components analyses with Varimax rotation were planned in order to determine whether there was a good fitting model for the SPP, DSE, SP and OCD variables. The number of factors was determined by an examination of eigenvalues (more than 1). For SPP, the first eigenvalue was 2.247, one factor accounted for 56 % of the variance. For DSE, the first eigenvalue was 1.984, which indicated that one factor should be extracted and inspected for simple structure, one factor accounted for 49.6 % of the variance. For SP, the first eigenvalue was 2.293, one factor accounted for 59 % of the variance. These results are concordant with the validity test made by the authors of these scales.

In the case of OCD, the exploratory analysis with rotated Varimax found 6 components; these 6 factors together accounted for 70.6 % of the variance. The first six consecutive eigenvalues were 5.918, 1.812, 1.494, 1.346, 1.135 and 1.006; these eigenvalues indicated that six factors should be extracted and inspected for simple structure. A confirmatory factor analysis on six OCD dimensions using SAS (Version 9.2) CALIS procedure was conducted (Table 29). All the 18 items were used, that is to say three items representing each of the six dimensions. The overall goodness-of-fit indexes suggest that the six-factor model fits the data well. Furthermore, loadings for most of all the items onto their respective intended latent factors were highly significant ($p < 0.001$), but three of them had a significance of $p < 0.05$.

Additionally, the one-factor model was tested in which all 18 items were loaded into the single factor. The one-factor model showed an inadequate fit with the data ($\chi^2 = 175.54$, $p < 0.001$, NNFI = 0.77, RMSEA = 0.0846). Because the one-factor model is nested within the six-factor model, a chi-square difference test was conducted. A significant chi-square difference between the two models ($\Delta\chi^2 = 175.5437 - 144.1250 = 31.42$, $\Delta d.f. = 15$, $p < 0.01$) suggests that the six-factor model is more appropriate than the one-factor model. These results show that despite the apparent low reliability coefficients for OCD, their measurements have appropriate convergent and discriminant validity.

6.2.2 Principal Variables

We call principal variables those which are directly addressed by the research questions and hypotheses of this study. There are five principal variables in this study: four independent and one dependent variable. Three independent variables derive from the primary data and one derives from the secondary data. The national culture distance between parent and host countries is a principal independent variable and is computed according to Hofstede's (2001) study using Kogut and Singh's (1988) expression; the cultural distance indices are listed in Appendix A. The results of descriptive statistics are summarized in the tables 4 and 5.

Table 4 : Descriptive Data 1

n=43	Mean	Standard Deviation	Alpha Cronbach	Range	Minimum	Maximum
OCD	2.40	0.63	0.873	2.39	1.22	3.61
NCD	22.63	22.2	0.791	57.31	2.65	59.96
SP	4.80	0.85	0.819	4.00	2.00	6.00
SPP	4.00	0.63	0.699	2.50	2.50	5.00
DSE	2.50	0.74	0.658	3.75	1.00	4.75

Table 5 : Descriptive Data 2

n=43	Coefficient of variation	Percentil 25%	Percentil 75%	Skewness	Kurtosis	Shapiro -Wilk
OCD	23.23%	1.955	2.93	0.368	-0.784	0.097
SP	16.38%	4.45	5.35	-1.518	3.022	0.001
SPP	15.13%	3.75	4.5	-0.813	0.071	0.006
DSE	30%	2.00	3.00	0.699	0.866	0.026

For the OCD, the coefficient of skewness is 0.368, which means that the right-end tail of the distribution line is longer; the mass of the distribution is concentrated to the left side. The kurtosis coefficient is -0.784 which indicates a "flat" distribution relative to a normal

distribution. To check the normality of the distribution of this variable, the research use the Shapiro-Wilk test recommended for sample sizes smaller than 50; the significance is 0.097, which is greater than 0.05, which indicates normality of the distribution.

For the DSE, the coefficient of skewness is 0.699, which means that the right-end tail of the distribution is longer; the mass of the distribution is concentrated on the left side. The coefficient of kurtosis is 0.866, which indicates a "soft peaked" distribution relative to a normal distribution. In the Shapiro-Wilk test; the significance is 0.026, which indicates that DSE is not normally distributed.

For the SPP, the coefficient of skewness is -0.813, which means that the data is skewed to the left; the mass of the distribution is concentrated on the right side. The coefficient of kurtosis is 0.071 which indicates a "soft peaked" distribution relative to a normal distribution. In the Shapiro-Wilk test, the significance was 0.006, which evidences that SPP is not normally distributed.

For the SP, the coefficient of skewness is -1.518, which means that the left-end tail of the distribution is longer; the mass of the distribution is concentrated on the right side. The coefficient of kurtosis is 3.022 which indicate a "peaked" distribution relative to a normal distribution. The Shapiro-Wilk test; the significance was 0.001, consequently SP is not normally distributed.

6.2.3 Possible Influencing Variables

The most frequent TO (time of operation) is "more than 5 years" at 90.7 %, the "2 to 3 years" comes next at 7 % and the "1 year to 2 years" follows at 2.3 %. Almost 98 % of the sample represents firms more than 3 years old, which is considered by Andersen (2004) who stated that for the subsidiary age means more stability. The correlations results for the entire sample (Table 7) and for firms of "3 or more years" of operation (Table 27) are close, so we continued using the entire sample of 43 firms for testing the hypothesis.

The FCPS variable (frequency of contact between the parent and subsidiary firms) is reported as “13 or more contacts/week” in 46.5 % of the cases, “8-12 contacts/week” in 14 %, “4-7 contacts/week” in 16.3 %, “0-3 contacts/week” in 20.9 % of the 43 cases.

The most frequent EMC (entry mode choice) is the “greenfield start-ups” at 41.9 %, “partnerships/alliances/joint ventures” comes next at 11.6 % and “acquisitions” follows at 32.6 %, while 14 % is stated as “unknown”.

88.4 % of the subsidiaries report the SOL (subsidiary’s ownership level) as “100 %”, while “more than 50 %” report 9.3 %.

DMAOP (decision-making authority over daily operations granted the subsidiary by the parent firm) is reported as being “very proceduralized” in 2.3 % of the cases, “proceduralized” in 27.9 %, “neither flexible nor proceduralized” in 7 %, “flexible” in 23.3 % and “very flexible” in 39.5 % of the 43 cases. DMAP (decision-making authority over strategic plans granted the subsidiary by the parent firm) is reported as “very proceduralized” in 7 % of the cases, “proceduralized” in 44.2 %, “neither flexible nor proceduralized” in 4.7 %, “flexible” in 37.2 % and “very flexible” in 7 % of the 43 cases.

The NEC variable (executives from the subsidiary in contact with the parent firm) is reported as “2-4” in 44.2 % of the cases, “9 or more” in 27.9 %, “5-8” in 20.9 % and “1” only in 7 % of the 43 cases.

The NE variable (number of employees) is reported as “1001 or more employees” in 34.9 % of the cases, “501-1000 employees” in 7 %, “251-500 employees” in 7 %, “101-250 employees” in 27.9 % and “1-50 employees” in 18.6 % of the 43 cases.

The NEX variable (number of expatriates working in managerial charges in the subsidiary) is reported as “0-1” in 37.2 % of the cases, “6 or more” in 25.6 %, “2-3” in 20.9 % and “4-5” in 14 %.

6.3 TESTS AND RESULTS

6.3.1 Independent Sample

We obtain the mean for one single variable of one determined parent country and after we compare it with the expected mean of that variable for another parent country. In this way we can compare the responses from the five parent countries for establishing some hierarchical relationship with regard to several key variables. Table 6 presents the mean for each variable by parent country.

Table 6 : Mean for Each Variable and Country

	France	Japan	Germany	England	USA
1. OCD	2.70	2.74	2.18	2.19	2.16
2. NCD	25.53	59.96	7.6	5.47	2.65
3. SP	4.80	4.48	4.65	4.77	4.83
4. SPP	4.15	4.13	3.86	3.91	3.92
5. DSE	2.20	2.68	2.47	2.50	3.00
6. FCPS	2.90	3.20	3.00	2.64	3.00
7. NEC	3.00	2.30	2.33	2.91	3.33
8. DMAPS	2.60	3.10	3.11	2.73	3.67
9. DMAOP	2.70	3.90	4.67	3.64	3.67
10 PO	4.90	5.00	5.00	4.82	5.00
11. TO	4.40	5.00	5.00	5.00	4.67
12. NE	3.80	3.20	2.56	5.36	4.33
13. NEX	2.60	2.30	1.75	2.18	3.00

These results imply that Japanese subsidiaries have the highest average number of weekly contacts with the parent firm ($M=3.20$), the longest organization culture distance ($M=2.74$) and the longest national culture distance ($M=59.96$), with the top managers working for the longest period of time ($M=3.80$) when compared to the subsidiaries of French, German, English and American parent firms. The Japanese subsidiaries are tied in with subsidiaries from German and English parent firms in time operations ($M=5$); the French subsidiaries ($M=4.40$) are the youngest in the sample.

The subsidiaries of French ($M=4.15$) and Japanese ($M=4.13$) MNCs, and in that order, show more orientation toward strategic planning than subsidiaries from the three other countries. The fact that American subsidiaries ($M=3$) are in the first place and the Japanese ($M=2.68$) in the second indicates a greater orientation toward the emergent strategy process. Contrarily, the subsidiaries of French ($M=2.20$) MNCs show less orientation toward the emergent strategy process, and the subsidiaries of German MNCs ($M=3.86$) show the lowest orientation to the strategic planning process compared to subsidiaries of the other parent countries. In the evaluation of subsidiary performance, the American firms ($M=4.83$) are better positioned than are the subsidiaries of the other parent countries. The Japanese subsidiaries ($M=4.48$) have the lowest subsidiary performance.

The American subsidiaries have the greatest number of its executives contacting the parent firm and they also have more flexibility ($M=3.67$) to make their own strategic planning than subsidiaries from other countries, but the German subsidiaries ($M=4.67$) have more flexibility in their daily operations followed by the Japanese firms ($M=3.90$). Contrarily, the French subsidiaries (2.60 and 2.70) are the least flexible in both the planning strategy and daily operations. The Japanese and French are tied in their preference to start-up a new entity, but the American MNCs prefer to buy an existing firm.

6.3.2 Spearman Correlation

We used the Spearman correlation for measuring the direction and strength of the linear relationship between two variables. Tests were conducted on all the continuous variables of

the 43 cases. A summary of the Spearman correlation statistics between the principal variables is presented in Table 7 while Table 8 includes all the Spearman correlation coefficients between all of the 13 variables (principals and control).

According to table 6.4, there is no significant relationship between the strategic planning process and subsidiary performance. Similarly there is no significant relationship between decentralized strategy emergence and subsidiary performance.

Table 7 : Spearman Correlation Coefficients (Direct and Indirect Variables)

n=43	1	2	3	4	5
Organizational culture distance OCD	1				
National culture distance NCD	0.391***	1			
Subsidiary performance SP	-0.276*	-0.112	1		
Strategy planning process SPP	0.003	0.138	0.112	1	
Decentralized strategy emergence DSE	-0.070	-0.121	0.069	0.138	1

***p<0.01, **p< 0.05, *p<0.1, two-tailed significance tests

The OCD variable (organizational culture distance) and SP have a moderate negative correlation coefficient of -0.276 with $p < 0.073$. This inverse correlation suggests that a higher cultural distance between the subsidiary and its parent firm negatively affects the performance of the subsidiary.

OCD and NCD (national culture distance) have a positive correlation of 0.391 with $p < 0.010$. This direct correlation suggests that the greater the national culture distance, the larger the organizational culture distance.

Table 8 : Spearman Correlation Coefficient

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. OCD	1												
2. NCD	0.391***	1											
3. SP	-0.276*	-0.112	1										
4. SPP	0.003	0.138	0.112	1									
5. DSE	-0.070	-0.121	0.069	0.138	1								
6. FCPS	0.199	0.100	-0.217	0.080	-0.107	1							
7. NEC	0.111	-0.240	0.233	0.061	-0.021	0.294*	1						
8.DMASP	-0.175	-0.041	0.163	-0.035	0.367**	0.103	-0.033	1					
9.DMAOP	-0.286*	-0.063	0.309**	0.138	0.495***	-0.259*	-0.132	0.368**	1				
10 PO	-0.034	0.104	-0.092	-0.071	0.068	0.050	0.013	-0.070	0.090	1			
11. TO	0.068	-0.019	0.331**	-0.006	0.024	-0.060	0.054	0.124	0.305**	-0.070	1		
12. NE	-0.119	-0.326**	0.312**	-0.004	-0.200	0.068	0.487***	-0.133	-0.110	-0.285*	0.253	1	
13. NEX	0.043	0.039	-0.018	0.125	-0.019	0.311**	0.510***	-0.037	-0.083	-0.059	0.016	0.545***	1

***p<0.01, **p< 0.05, * P < 0.10, two-tailed significance tests

DMAOP (the decision-making authority over daily operations granted the subsidiary by the parent firm) and the DSE have a sound positive correlation of 0.495 with $p < 0.001$, suggesting that the subsidiary has a greater emergent strategy orientation when the parent firm gives it more liberty on the decision-making authority over daily operations.

DMASP (the decision-making authority over strategic plans granted the subsidiary by the parent firm) and the DSE have a sound positive correlation of 0.367 with $p < 0.015$, suggesting that the subsidiary has a greater emergent strategy orientation when the parent firm gives it more liberty on the decision-making authority over strategic plans.

DMAOP and DMASP have a positive correlation of 0.368 with $p < 0.015$, suggesting that the subsidiary firms that are granted more liberty on the decision-making authority over daily operations also receive more liberty from the parent firms regarding their strategic planning process.

NE (number of employees) and SP (subsidiary performance) have a positive correlation of 0.312 with $p < 0.042$, which can be explained by the availability of resources in the bigger subsidiaries.

TO (time operation) and DMAOP (the decision-making authority over daily operations granted the subsidiary by the parent firm) have a positive correlation of 0.305 with $p < 0.047$. This positive correlation suggests that older subsidiaries receive more liberty in their daily decision-making process from the parent firm.

In order to analyse the Spearman correlation between the main variables, the sample is divided by size: small-medium firms (less than 500 employees) and large firms (more than 500 employees). The results are presented in tables 9 and 10.

Table 9 : Spearman Correlation Coefficient for Small and Medium Subsidiaries

n=25 (58%)	1	2	3	4	5
OCD	1				
NCD	0.542***	1			
SP	-0.060	-0.161	1		
SPP	0.088	0.213	0.217	1	
DSE	-0.046	-0.236	-0.066	0.152	1

*** $P < 0.01$; ** $P < 0.05$; * $P < 0.10$, two-tailed significance tests.

For small and medium subsidiaries, OCD and NCD (national culture distance) have a positive correlation of 0.542 with $p < 0.005$. This direct correlation suggests that the larger the national culture distance, the higher the organizational culture distance.

Table 10 : Spearman Correlation Coefficient for Large Subsidiaries

n=18 (42%)	1	2	3	4	5
OCD	1				
NCD	0.216	1			
SP	-0.512**	0.066	1		
SPP	-0.127	0.115	-0.090	1	
DSE	-0.186	-0.018	0.286	0.143	1

*** $P < 0.01$; ** $P < 0.05$; * $P < 0.10$, two-tailed significance tests.

For large subsidiaries, OCD (organizational culture distance) and SP have a strong negative correlation coefficient of -0.512 with $p < 0.05$. This inverse correlation suggests that a larger organizational culture distance between the subsidiary and parent firm, smaller performance of the subsidiary firm.

6.3.3 Regression Analysis

The regression analysis is applied to the variables in order to test the models. The normality of residuals is tested, following Cohen and Cohen (2003), who considers that the residuals around the regression line are supposed to have a normal distribution. Considering that normal distribution of residuals is a limitation of the linear regression, we tested this assumption for all linear regressions in each hypothesis.

6.4 DISCUSSION BY HYPOTHESIS

This research finds overall support for the hypothesis postulating the negative influence of organizational culture distance on the performance of the subsidiary firm, but only for large subsidiaries. The results of the individual hypotheses will be discussed below and summarized in Table 23.

6.4.1 Hypothesis 1a

Subsidiary firms with a high degree of decentralized strategy emergence are associated with superior organizational performance, particularly when the organizational culture of the parent and subsidiary firms is close.

The Spearman correlation reveals there is no significant correlation between Subsidiary Performance and Decentralized Strategy Emergence, with a correlation coefficient of 0.069 at $p < 0.723$. The relationship is weak, which is concordant with our qualitative interviews with the CEOs where they agree that the emergent strategies are important but their contribution is primarily at the technical level, limiting the effect of their importance for obtaining a good performance. On the other hand, the OCD has a significant negative correlation to SP of -0.276 at $p < 0.1$; as the cultural distance between parent and subsidiary organizations increases, the subsidiary's performance tends to decrease.

The regression analysis reveals that there is no significant relationship between DSE and SP, with an R of 0.087. The model indicates that nearly 0.8 % of the dependent variation is explained by the correlation variables and provides an F-statistic of 0.314 with $p < 0.578$. The performance increases as the orientation toward emergent strategy increases. If we include OCD in the model, the R coefficient becomes stronger at 0.350. The model indicates that nearly 12.3 % of the dependent variation is explained by the correlation variables and provides an $F = 2.794$ with $p < 0.073$. This result can be interpreted as being that the OCD influence contributes to strengthen the relationship between DSE and SP.

Table 11 : Moderate Regression Analysis Results for Hypothesis 1a

n=43	Model I	Model II
Decentralized Strategy emergence	0.106	0.154
Organizational culture distance	-0.340**	-0.570
Decentralized strategy emergence by organizational culture distance		0.365
Multiple R2	0.123	0.128
Adjusted R2	0.079	0.061
F	2.794	1.908
Significance	0.073*	0.144
Shapiro-Wilk	0.015	0.009

*** $P < 0.01$; ** $P < 0.05$; * $P < 0.10$

Standardized Coefficients, (model II: z coefficients)

Before testing this hypothesis, we examined the correlations between the independent variables in order to detect high levels of association, which can cause problems of collinearity which can in turn cause high standard errors of the regression coefficients. But

when examining Table 7, the correlations between the independent variables are not too strong (maximum is 0.276), which eliminates the possible problems of collinearity. For testing the moderating effects, Table 11, we have two models: first with the independent, dependent and moderating variables, the second including the interaction term as the way to multiply the values of the independent and moderating variables.

To analyze the moderator effect in the regression equation, we follow the recommendations of Cohen et al. (2003), in order to avoid possible non-zero intercepts in the interaction coefficient which affect the simple slopes of the equation; they recommend to standardize X and Z into zx and zz , to form the interaction term $zxzz$ which is considered by the authors as a proper solution.

There are two conditions for a moderating effect to be considered as significant: the variation in R^2 is significant and the coefficient of interaction also. From the analysis in Table 6.8, we can surmise that in model I, none of the variables has a main (direct) effect on performance, and that the effect of the OCD (-0.340) is more important than the DSE (0.106). In model II, after entering the interaction, the value of R^2 (0.128) doesn't change and the coefficient of the interaction term is not significant ($\beta=0.365$, $p<0.626$); we can conclude that there is no moderating effect in this relationship. Considering that there is a strong positive correlation ($R=0.312$) between the size of the firm measured by the number of employees (NE) and the subsidiary performance (SP), this is concordant with the findings from the qualitative study that organizational culture distance is more important as a determinant of the performance of the large subsidiary firms than it is for small-medium subsidiaries.

We analysed this hypothesis according to the size of the firm using the classification for Canadian firms established by Baldwin et al., (2004). The fact is that there is a strong relationship between DSE, OCD and SP ($R^2= 0.549$ and $p<0.009$) for large subsidiaries (Table 13), contrarily to small-medium-sized subsidiaries which don't manifest any significant relationship between these variables. Considering these indicators, we decided to continue with a statistical exploratory study for both small-medium and large subsidiaries.

After analysing the data for small and medium subsidiaries (1-500 employees) in Table 12, we found the same results: the R2 multiple has a few significant changes (0.013) and the coefficient of interaction is not significant ($p < 0.601$). Even for small and medium firms, the hypotheses can't be demonstrated, and model II doesn't represent them any better than model I; the significance of the relationship at 90 % error probability rejects hypothesis 1a for small-medium subsidiaries.

Table 12 : Moderate Regression Analysis Results for Hypothesis 1a (Small-Medium Subsidiaries)

n=25	Model I	Model II
Decentralized emergent strategy	-0.024	-0.451
Organizational culture distance	-0.111	-0.431
Decentralized emergent strategy by organizational culture distance		0.582
Multiple R2	0.014	0.027
Adjusted R2	-0.076	-0.112
F	0.153	0.193
Significance	0.859	0.900
Shapiro-Wilk	0.024	0.011

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (model II: z coefficients)

However, when we analyzed the data for large subsidiaries (501 or more employees), Table 13, we found that R was 0.741, that the R2 registered a significant change (0.200) and that the value of the coefficient of interaction was 2.004 at $p < 0.089$. Also, the significance of the relationship was 0.9 %, less than 5 %, which validates it. In order to check the model

assumption of normality, we performed the Shapiro-Wilk test for the residuals and we obtained a significance of 0.960, bigger than 0.05, which proves the normality of the residuals of the regression model. In conclusion, regarding the large subsidiaries, there is an exploratory sign that the organizational culture distance influences positively on the relationship between decentralized strategy emergence and subsidiary performance. This sign is concordant with the conclusion of the interviews that organizational culture distance has a greater effect on the performance of the large subsidiary firms.

Table 13 : Moderate Regression Analysis Results for Hypothesis 1a (Large Subsidiaries)

n=18	Model I	Model II
Decentralized strategy emergence	0.249	-1.131
Organizational culture distance	-0.588**	-2.174**
Decentralized strategy emergence by organizational culture distance		2.004*
Multiple R2	0.309	0.549
Adjusted R2	0.217	0.452
F	3.349	5.676
Significance	0.013	0.009
Shapiro-Wilk	0.103	0.960

** P < 0.05; * P < 0.10

Standardized Coefficients (model II: z coefficients)

From this model, we obtain the following relationship:

$$YL = -2.174 \cdot OCD - 1.131 \cdot DSE + 2.004 \cdot OCD \cdot DSE$$

In order to interpret the interaction effect, we solved the regression equation for high, medium and low levels of organizational culture distance and then plotted it on a graph (Figure 9). The research considered the medium level of OCD as the mean of the OCD Scale for large subsidiaries (2.32), a low level of OCD being: $2.32-1=1.32$ and a high level as value: $2.32+1=3.32$, as shown in the scale.

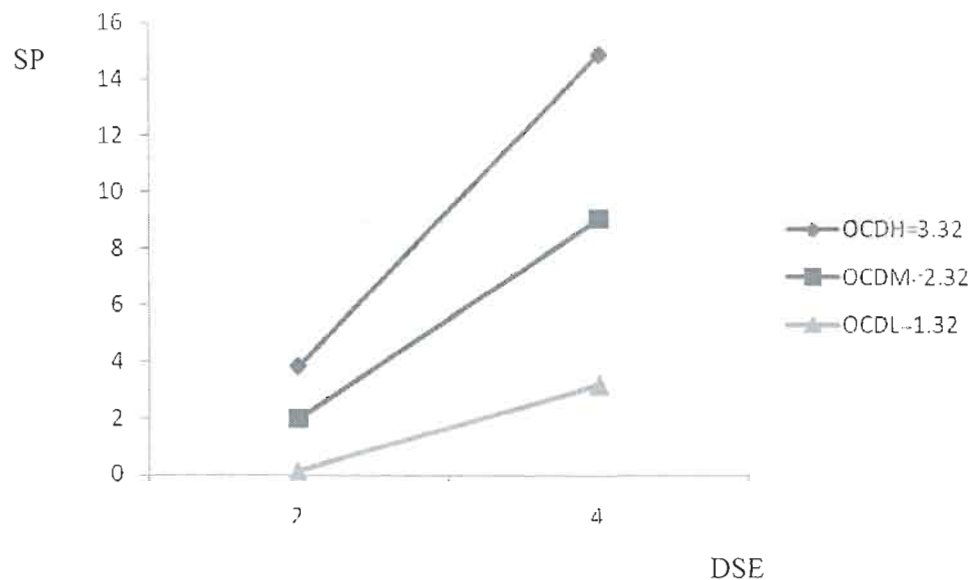


Figure 9 : Moderating Effect of OCD over the DSE-SP Relationship

Figure 9 shows us the different levels of OCD. For a low OCD (value 1.32), the slope of the DSE-SP relationship is positive but close to zero (1.51): increases in DSE produce increases in SP. For firms with medium OCD, the slope is positive but small (3.51). However, for a high level of OCD (value of 3.32), the slope is bigger and positive (5.52): increases in DSE produce increases in SP. This Figure proves the moderating effect of OCD because its presence changes the nature of the association between DSE and SP, as increasing values of OCD produce increasing slopes of the positive relationship between DSE and SP.

The following step is taken to determine which of these slopes are significant. For that reason we use MODPROBE, which is an SPSS computational aide for testing the

significance of the slopes (Hayes and Matthes, 2009). By default, conditional effects of the DSE are estimated at the sample mean of the OCD as well as at one standard of deviation above and below the sample. We can see that the moderating effects are significant at 9.8 % for OCD levels of 2.31 or more (Table 30).

Finally we used the Johnson-Neyman technique (Hayes and Matthes, 2009) for ascertaining what the interval of significance of OCD is. The effect of DSE on SP is significantly positive for the values of OCD from 2.53 to 3.61 (Table 31).

6.4.2 Hypothesis 1b

Subsidiary firms with a high degree of decentralized strategy emergence are associated with superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

Table 14 : Moderate Regression Analysis Results for Hypothesis 1b

n=43	Model I	Model II
Decentralized strategy emergence	0.094	-0.052
National culture distance	-0.159	-0.176
Decentralized strategy emergence by National culture distance		0.184
Multiple R2	0.033	0.045
Adjusted R2	-0.016	-0.029
F	0.676	0.606
Significance	0.514	0.615
Shapiro-Wilks	0.002	0.001

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (model II: z coefficients)

The regression analysis reveals that the influence of the NCD (national culture distance) is less important in the relationship between DSE and SP with an R of 0.211 (NCD coefficient is only -0.176). The model indicates that nearly 3.3 % of the dependent variation is explained by the correlation variables and provides an $F = 0.606$ with $p < 0.615$. With regard to the moderating effect of the NCD variable (Table 14), which is present as model II in Table 6.11, there is no significant relationship between the variables of this model II, with $p < 0.615$. Also, the coefficient of moderation 0.184 is not significant ($p < 0.491$).

Table 15 : Moderate Regression Analysis Results for Hypothesis 1b (Small-Medium versus Large Subsidiaries)

	Small-Medium	Large
Decentralized strategy emergence	-0.147	-0.017
National culture distance	-0.308	-0.120
Decentralized strategy emergence by National culture distance	0.269	0.518
Multiple R ²	0.013	0.282
Adjusted R ²	-0.129	0.128
F	0.089	1.834
Significance	0.965	0.187
Shapiro-Wilks	0.004	0.642

*** $P < 0.01$; ** $P < 0.05$; * $P < 0.10$

Standardized Coefficients (z coefficients)

In analysing the sample of the small-medium and large subsidiaries (Table 15), the significance in both cases surpasses the maximum allowed. For this reason we conclude that the influence of the NCD is not demonstrated either for the small-medium or the large subsidiaries.

6.4.3 Hypothesis 2a

Subsidiary firms with a high degree of strategic planning are associated with a superior organizational performance, particularly when the organizational cultures of the parent and subsidiary firms are close.

Table 16 : Moderate Regression Analysis Results for Hypothesis 2a

n=43	Model I	Model II
Strategic planning process	0.117	-1.057
Organizational culture distance	-0.337**	-2.391**
Strategic planning by organizational culture distance		2.408*
Multiple R2	0.125	0.202
Adjusted R2	0.081	0.141
F	2.856	3.293
Significance	0.069	0.030
Shapiro-Wilks	0.032	0.040

** P < 0.05; * P < 0.1

Standardized Coefficients (model II: z coefficients)

Regarding the moderating effect, in Table 16 the variation of R2 between model I without moderation and model II which includes moderation is not important ($\delta R^2=0.077$), but the coefficient of the interaction term is positive ($\beta=2.408$) but not significant ($p<0.060$). The relationship is significant (3%) but Shapiro-Wilk coefficient is 0.040 less than 0.05, which means the residuals are not linear and that the data doesn't fit the model.

Even for small and medium firms, the hypotheses can't be demonstrated, the significance of the model is 13.1 %, which is bigger than the maximum of 5% allowed, which rejects hypothesis 2a.

Table 17 : Moderate Regression Analysis Results for Hypothesis 2a, (Small-Medium versus Large Subsidiaries)

	Small-Medium	Large
Strategic planning process	-1.397*	-1.121**
Organizational culture distance	-2.840**	-2.325**
Strategic planning by organizational culture distance	3.348**	1.965**
Multiple R2	0.231	0.605
Adjusted R2	0.121	0.521
F	1.543	7.159
Significance	0.131	0.004
Shapiro-Wilks	0.08	0.274

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (z coefficients)

Regarding the moderating effect for large subsidiaries, in Table 6.8 the relationship for large subsidiaries is significant at 0.4% and the moderator coefficient (1.965) is significant ($p < 0.016$). In consequence, the moderator effect for hypothesis 2a is supported for large subsidiaries.

From this model, we obtain the following relationship:

$$YL = -2.325 \cdot OCD - 1.121 \cdot SPP + 1.965 \cdot OCD \cdot SPP$$

In order to interpret the interaction effect, we solved the regression equation for high, medium and low levels of organizational culture distance and then plotted it on a graph (Figure 10). The research considered the medium level of OCD as the mean of the OCD Scale for large subsidiaries (2.32), a low level of OCD being 1.32 and a high level a 3.32 value.

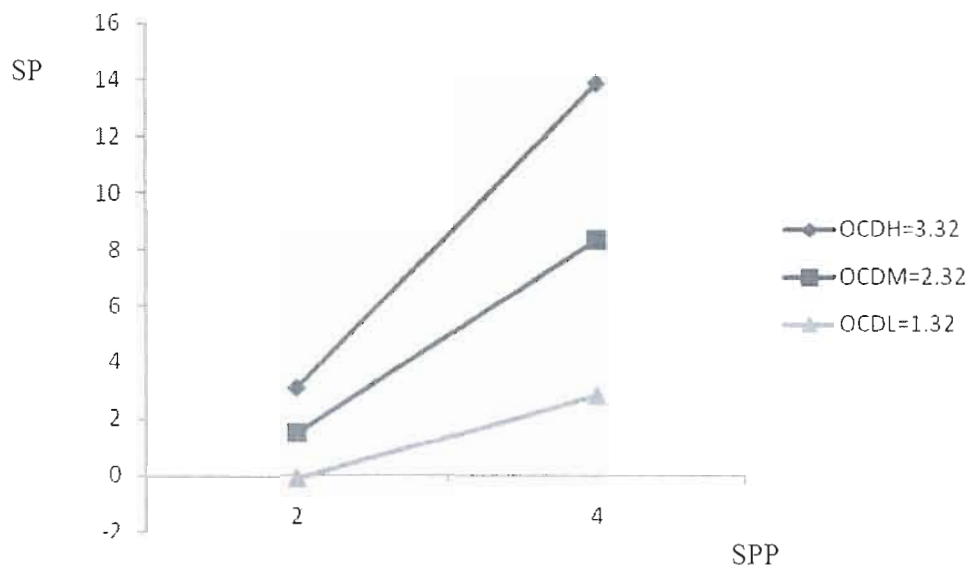


Figure 10 : Moderating Effect of OCD over the SPP-SP Relationship

Figure 6.1 shows us the different levels of OCD. For a low OCD (value 1.32), the slope of the SPP-SP relationship is positive but close to zero (1.47): increases in SPP produce increases in SP. For firms with medium OCD, the slope is positive but small (3.43). However, for a high level of OCD (value of 3.32), the slope is greater and positive (5.40): increases in SPP produce increases in SP. This Figure proves the moderating effect of OCD because its presence changes the nature of the association between SPP and SP, as increasing values of OCD produce increasing slopes of the positive relationship between SPP and SP. MODPROBE is used for determining the significance of these slopes; the results are that the moderating effects are not significant for any value of OCD. This result is retested using the Johnson-Neyman technique (Hayes and Matthes, 2009); the output reveals that the effect is statistically non significant at low, moderate and high values of OCD.

6.4.4 Hypothesis 2b

Subsidiary firms with a certain degree of strategic planning process are associated with a superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

Table 18 : Moderate Regression Analysis Results for Hypothesis 2b

	All	Small-Medium	Large
Strategic planning process	-0.168	-0.185*	-0.170
National culture distance	-0.203	-2.515*	-1.399
Strategic planning by National culture distance	0.421*	2.517	1.276
Multiple R2	0.124	0.182	0.048
Adjusted R2	0.057	0.066	-0.156
F	1.847	1.562	0.234
Significance	0.155	0.228	0.871
Shapiro-Wilks	0.015	0.002	0.520

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (model II: z coefficients)

From the analysis of the moderating effect which appears in Table 18, we can see that in any case we obtain a significant relationship and that the coefficient of moderation (0.421) is only significant at 6.1 % for the entire sample. Considering that the overall relationship is not significant ($p < 0.15$), we deduce that this result rejects our hypothesis 2b. The results for small-medium subsidiaries and large subsidiaries are not significant; in consequence hypothesis 2b is not supported.

6.4.5 Hypothesis 3

Close organizational cultures between parent and subsidiary firms positively influence the organizational performance of the subsidiary firms.

The Spearman correlation reveals that the relationship between organizational culture distance and subsidiary performance is strong with an R of -0.276, lending support for hypothesis 3. The model indicates that nearly 9 % of the dependent variation is explained by the independent variables and provides an F= 5.137 with $p < 0.029$. In order to check the model assumption of normality, we did the Shapiro-Wilk test for the residuals and obtained a significance of 0.052, bigger than 0.05, which proves the normality of the residuals. The results suggest that the relationship is inversed, that reducing the OCD increases the performance of the subsidiary.

Table 19 : Regression Analysis Results for Hypothesis 3

n=43	Model I
Organizational culture distance	-0.334**
Multiple R2	0.111
Adjusted R2	0.090
F	5.137
Significance	0.029
Shapiro-Wilks	0.052

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (model II: z coefficients)

Following, we analyse the sample for small-medium and large subsidiaries. We find that for large subsidiaries (Table 20), the results are more convincing: R is 0.617 and more significant (0.6 %), while for small-medium subsidiaries; the results go beyond the significance zone (58.5 % more than 5 % maximum). To check the model assumption of normality for large subsidiaries, we applied the Shapiro-Wilk test for the residuals and obtained a significance of 0.445, bigger than 0.05, which proves the normality of the

residuals. In consequence, we can conclude that for large subsidiaries hypothesis 3 is supported but it isn't for the small-medium subsidiaries.

Table 20 : Regression Analysis Results for Hypothesis 3, (Small-Medium versus Large Subsidiaries)

	Small-Medium	Large
Organizational culture distance	-0.115	-0.617***
Multiple R2	0.013	0.380
Adjusted R2	-0.030	0.342
F	0.307	9.818
Significance	0.585	0.006
Shapiro-Wilks	0.020	0.445

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (z coefficients)

6.4.7 Hypothesis 4a

Subsidiary firms with a high level of strategic planning process and a high emphasis on decentralized strategy emergence are associated with superior organizational performance, particularly when the organizational cultures of the parent and subsidiary firms are close.

From the hierarchical regression analysis illustrated in Table 21, in model I, SPP and DSE don't have a significant correlation with SP, but when OCD is included as in model II, the OCD variable has a very strong coefficient and the significance of the relationship and R2 increase notably which demonstrates the importance of OCD and its influence on the performance of the strategic variables.

Table 21 : Moderate Regression Analysis Results for Hypothesis 4a

n=43	Model I	Model II	Model III	Model IV	Model V	Model VI
Strategic planning process	0.097	0.103	-1.121	-1.125	-1.215*	1.954
Decentralized strategy emergence	0.073	0.091	0.119	0.129	-0.208	5.574
Organizational culture distance		-0.341**	-2.479**	-2.477**	-2.129	2.997
Strategic planning by organizational culture distance			2.504	2.512*	2.214	-3.907
Decentralized strategy emergence by organizational culture distance				-0.021*	-0.152	-8.462*
Decentralized strategy emergence by strategic planning					0.526	-0.129
Decentralized strategy emergence by strategic planning by organizational culture distance						1.745*
Multiple R2	0.107	0.133	0.216	0.216	0.198	0.283
Adjusted R2	-0.032	0.066	0.133	0.110	0.065	0.139
F	0.343	1.995	2.613	2.035	1.694	1.970
F-significance	0.712	0.131	0.050	0.096	0.151	0.088
Shapiro-Wilks	0.001	0.009	0.032	0.032	0.016	0.014

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients (Models III,IV,V and VI: z coefficients)

Models III, IV and V include the interaction terms between SPP and OCD, DSE and OCD, and SPP and DSE, which don't show any significant coefficient of regression for these interaction terms. Finally, the interaction terms between the two strategy constructs and OCD are included in model VI as independent variables, but we don't obtain any significant results; consequently, hypothesis 4a is rejected.

6.4.8 Hypothesis 4b

Subsidiary firms with both a high degree of strategic planning and a high emphasis on decentralized strategy emergence are associated with superior organizational performance, particularly when the national cultures of the parent and subsidiary firms are close.

In model I, none of the three variables SPP, DSE and NCD have a significant relationship with the dependent variable SP; in models II and III, the component that indicates the moderator effect of NCD in SPP (NCDxSPP) has a $p < 0.1$, but the general equations of models I and II are not significant. Models III, IV and V include the interaction terms between SPP and NCD, DSE and NCD, and SPP and DSE, which don't show any significant coefficient of regression for these interaction terms.

Finally, the interaction terms between the two strategy constructs and NCD are included in model VI as independent variables, but there is no significant result to support hypothesis 4b.

Table 22 : Moderate Regression Analysis Results for Hypothesis 4b

(n=43)	Model I	Model II	Model III	Model IV	Model V
Strategic planning process	0.121	-0.196	-0.178	-0.371	-0.051
Decentralized strategy emergence	0.077	0.110	-0.101	-0.470	0.094
National culture distance	-0.175	-2.385**	-2.960**	-2.658*	-0.963
Strategic planning by national culture distance		2.294*	2.368**	2.155*	0.380
Decentralized strategy emergence by national culture distance			0.571	0.469	-1.280
Decentralized strategy emergence by strategic planning				0.492	-0.205
Decentralized strategy emergence by strategic planning by national culture distance					1.823
Multiple R2	0.047	0.136	0.159	0.164	0.170
Adjusted R2	-0.026	0.045	0.046	0.025	0.004
F	0.639	1.498	1.402	1.177	1.023
Significance	0.594	0.222	0.246	0.340	0.433
Shapiro-Wilks	0.003	0.014	0.010	0.011	0.010

*** P < 0.01; ** P < 0.05; * P < 0.10

Standardized Coefficients

(model II,III,IV and V: z coefficients)

6.5 SUMMARY

The most significant result is the direct effect of the organizational culture distance in the subsidiary performance, and more interesting is that when we did the exploratory analysis of these two variables we found that for small-medium subsidiaries there is no significant

correlation but for large subsidiary firms the correlation is strong and significant, which is an indication that the small-medium subsidiaries are more resistant to the negative effects of the organizational culture distance.

Table 23 : Results Summary

Hypothesis	Variables	Results
H1a	DSE, OCD, SP	Explorative Regression Analysis: For large subsidiaries (n=18). R = 0.741, $p < 0.009$ Coefficient of moderation: B = 0.422, $p < 0.074$ Significance interval OCD: 2.53 or higher ($p < 0.05$) Qualitative: not clear
H1b	DSE, NCD, SP	Regression Analysis: rejected R = 0.211, not significant Qualitative: rejected
H2a	SPP, OCD, SP	Explorative Regression Analysis: For large subsidiaries (n=18). Regression Analysis: supported R = 0.450, $p < 0.030$ Coefficient of moderation: B = 2.408, $p < 0.059$ Significance interval OCD: none Qualitative: partly supported.
H2b	SPP, NCD, SP	Regression Analysis: rejected R = 0.353, not significant Qualitative: rejected
H3	OCD, SP	Regression Analysis: supported R = 0.617, $p < 0.029$ Qualitative: strongly supported
H4a	DSE, SPP, OCD, SP	Regression Analysis: rejected R = 0.469, not significant Qualitative: partly supported.
H4b	DSE, SPP, NCD, SP	Regression Analysis: rejected R = 0.412, not significant Qualitative: rejected

The research also obtain exploratory results for large subsidiaries which announce a moderator effect of organizational culture distance regarding its effect on the performance of the decentralized strategy emergence; the effect is detected for OCD (more than 2.89). This result should be confirmed in later research including a larger sample of subsidiaries.

The research tests Andersen's (2004) findings, but any significant correlation is founded. So the positive relationship of emergent strategy with subsidiary performance is not supported and the positive relationship between strategic planning and subsidiary performance is even not supported.

CHAPTER VII

CONCLUSIONS

This research considers one aspect of the environment left almost untouched by the researchers to date, which is the informal constraints of the two factors of the cultural environment: national and organizational culture distance. Our goal is therefore to analyse the influence of the cultural environment on the performance and strategy paradigm of the subsidiary.

The relationship between strategy formation and performance was not significant when organizational culture distance was not accounted for. The differences in the strength of the relationship found by Andersen (2004) and this research can be explained by the nature of the sample studied; he used national firms from a determined domestic market, while we use subsidiary firms. The decision-making process can be more complicated in a subsidiary firm than in a non subsidiary firm, because there is a stakeholder who resides outside the country: the parent firm, which places significant importance on the decisions taken by its subsidiary as they can affect the direct relationship between the strategy formation process and performance.

7.1 FINDINGS

7.1.1 Key Findings

The relationship between organizational culture distance and performance is strong and negative for the entire sample. However, the regression factor is bigger for large subsidiaries. This could be interpreted as there being less cultural distance between both organizations which in turn contributes to increase the performance of the subsidiary firm, which supports our hypothesis 3. It is important that the subsidiary firm create an organizational culture close to the organizational culture of its parent firm in order to increase the comprehensiveness

between both firms and reduce the costs of the transfer of knowledge and the implantation of strategic models. The headquarters imposes its overall philosophy to the subsidiary members who in turn adopt established attitudes, patterns of behaviour and values (Kranias, 2000), and who use these shared values and beliefs jointly with the local knowledge and resources in order to pursue the interests of the MNC as a whole (Nohria and Ghoshal, 1994).

Organizational culture distance is more important than national culture distance as an influential variable in the determination of the performance of large subsidiaries. This result is coincident with the statistical analysis and the interview answers where the managers of subsidiaries consider organizational culture distance as being more important than national culture in the determination of performance. It could be explained by the acculturation of the top managers and also by the multinational nature of the firm. On the other side, for small-medium subsidiaries, organizational culture distance and national culture distance are strongly and significantly correlated while for large subsidiaries that relationship is not significant.

The results of an exploratory statistical analysis suggest considerable support for large subsidiaries as increasing values in OCD influence positively on the positive relationship between DSE and SP. This could be explained as emergent strategies requiring an autonomous environment in which to develop, although the large subsidiary has its own human and material resources which create an environment favourable to emergent ideas. The isomorphic forces from the parent firm are not strong enough as the big subsidiary doesn't need resources from the parent firm; in fact the effectiveness of the isomorphic forces depends inversely on the size of the firm or on its degree of autonomy.

7.1.2 Secondary Findings

A strong positive relationship has been found to exist between the decision-making authority over daily operations granted the subsidiary by the parent firm (DMAOP) and by the decentralized emergent strategy. This can be interpreted as saying that a reduction of

control over decision-making in daily operations encourages the formation of decentralized emergent strategies.

A strong positive relationship has been found between the decision-making authority over the strategic planning granted the subsidiary by the parent firm (DMASP) and the decentralized emergent strategy, as a greater level of autonomy allows for more emergent strategy. This result confirms the high susceptibility of emergent strategy on the degree of control, even if the control is exerted on the strategic planning. The liberalization of controls from the parent firm contributes to create a flexible organization which can create and implement new emergent strategies to affront the host environment, increasing in that way the possibilities of success of the subsidiary firm.

These two levels of autonomy in planning (DMASP) and in daily operations (DMAOP) also have a strong positive relationship; in other words, autonomy in planning is normally accompanied by autonomy in the daily operations of subsidiary firms.

The strong positive relationship between the time operation (TO) and the decision-making authority over daily operations granted the subsidiary by the parent firm (DMAOP) can be explained because the older the firm is, the more autonomy the parent firm grants it, which may be based on the development of trust and the diminution of cultural barriers between them.

7.2 CONTRIBUTION

This research demonstrated that organizational culture distance has a stronger influence than does national culture distance on the performance of the large subsidiary firm. Considering that most of the studies found in the international literature have examined the direct effect of NCD on the performance of international joint ventures, obtaining results sometimes contradictory, this research found that the direct influence of NCD in the performance is weak and that its influence as a moderator variable is not significant for the relationship between strategy formation components and subsidiary performance. One explanation for this finding is the fact that the top managers of subsidiary firms go through a long process of acculturation before reaching the top levels; sometimes they were managers

in several other countries before being sent to Canada, which gives them an international perspective allowing them to diminish the effects of national culture differences.

This research highlights that the differences in results obtained by large and small-medium size subsidiaries regarding the relationship between national culture distance and organizational culture distance is different with respect to subsidiary performance. Previous research of Cui *et al.* (2006) demonstrated that the influence of OCD in technology transfer is stronger than the influence of NCD. They didn't study the behaviour of these variables according to the size of the subsidiary nor in their relationship with subsidiary performance.

This research demonstrates the strong negative influence of organizational culture distance on the performance of the subsidiary firm. This finding rejects the proposition of Barkema *et al.*, (1996) who considered that wholly owned subsidiaries are less susceptible to cultural distance because they have to contend with the process of acculturation in both layers of culture: national and organizational. This finding proves that instead of the acculturation process and the lack of cultural friction, as in the case of joint ventures (Pothukuchi *et al.*, 2002), the subsidiary firms are also affected by the differences in corporate culture between both firms.

For the subsidiary firm this research finds that the most important factor is the communication climate (open-closed dimension of the OCD), which means that communication problems are the most important problem affronted by the subsidiary firm in its relationship with the parent firm as they have a greater influence on its performance since it affects the transference of knowledge from the parent firm.

This research provides important indices for the positive moderator effect of organizational culture distance in the relationship between emergent strategy and subsidiary performance in large subsidiary firms. This finding concord with the research performed by Hedlund (1981), who found that the autonomy of the subsidiary increases with its size: when the subsidiary firm becomes larger this cultural control decreases, which means that the subsidiaries are more autonomous. In such a context, the subsidiary could have more flexibility to react to the circumstances of the market. Emergent strategies are an indication

of management's flexibility and their ability to react to circumstances (Fuller-Love and Cooper (2000)).

This research also has a contribution for the managers of the subsidiary firm, considering the negative relationship between organizational culture distance and performance, especially the dimension related to communication. One way to reduce the negative effect of OCD is to establish better communications between the two firms, in order to increase the transmission of knowledge and the sharing of resources between them.

7.3 LIMITS OF THE STUDY

One of the limitations of this research is that it bases its results on a relatively small sample size from a single country; in effect, the study is limited to foreign country subsidiaries located in Canada. This causes problems of generalization because even if Canada has many subsidiaries from different countries operating on its soil, any generalization of the results would require further replication in other host countries. This limitation is overcome by emphasizing the composition of the sample. The research has 42 % of big firms and 58 % of small and medium firms; they come from different parent countries with big national culture distances like Japan (23.3%) or countries with a close national culture distance like England (25.6 %) or Germany (20.9 %).

Another limitation is the simplification of the variations composing other environmental factors such as politics, economy, technology, which also influence the strategy formation and organizational performance. Environmental turbulence is a variable which can influence on the profitability of the subsidiary (Schmalensee, 1985; Andersen, 2004), but as we are analysing only one host country in one fixed point in time, the environmental turbulence should be uniform. This allows us to consider that its influence is not of great significance for the purposes of this study. The choice of a developed country such as Canada as host country allows for a reduction in environmental turbulence, on account of the stable political and economic dimensions prevailing in the country.

Because of the limited access to financial data, we have measured performance as perceptual and behavioural outcomes, but according to Pothukuchi *et al.* (2002), the effects of national and organizational culture distances on performance differ according to the type of performance measures. This research deals with this limitation by interviewing the CEO and top managers of the firm, those who know the performance of the firm, although the subsidiary performance includes measures in areas such as: overall performance, sales growth, market share, profitability/ROI, management and new product introduction measures which allow a global determination of the performance.

The data collected for the independent and dependent variables emanate from the same source; our questionnaire includes both sections, to be answered by the same respondent. It can be stated that there is an effect based on the measurement, in the sense that the results can be attributed more to the use of determined methods of measure than to the relationship between the variables. The research manages this limitation by using different measures of performance, which are contrasted between them in order to avoid bias.

There are several queries regarding the use of Hofstede's (1980) cultural data for the construction of national culture distance using the Kogut and Singh (1998) index, as it is now 30 years old and many political, economic and technological changes have since taken place which can influence on the national culture. Other critics have referred to Kogut and Singh's (1998) index, such as Evans and Mavondo (2002) who criticized the fact that the index refers to a third country, the United States. This research uses Hofstede's data and Kogut and Singh's index based in the numerous articles and research published in prestigious scholarly journals using these two sources, which validates its use.

7.4 RECOMMENDATIONS FOR FUTURE RESEARCH

Several topics for future research emerge from this dissertation. Some of the important ones are:

Replicate the findings of this study using a larger sample of subsidiaries with parent firms from a greater number of different countries.

Repetition of this study in another context (e.g., subsidiaries located in a developing country) to allow for greater generalizations.

A research of the relationship between control and the strategy formation process, in order to discover the degree of influence of the control exerted by the parent firm on the subsidiary, in the choice of the subsidiary to determine the strategic formation processes (planning or emergent).

In the study of the effects of national cultural distance in the performance of the strategy process in the subsidiary firm, we use Kogut and Singh's (1988) national culture distance as the independent variable for testing and analyses. The four dimensions of Hofstede's (2001) national culture need to be studied, in order to find which cultural dimension maintains the strongest relationship with the strategic planning process and the decentralized emergent strategy. It can also be used as the fifth dimension of Long Term Orientation.

In conclusion, this research utilized Andersen's (2004) environment-strategy-performance framework to model the direct and relative influence of two factors of the cultural environment (national culture distance and organizational culture distance) on the performance of strategic planning and emergent strategy. First, the research has shown that organizational culture distance influences the performance of the subsidiary firm. Second, qualitative and quantitative results have confirmed that the OCD-performance relationship is

stronger than the NCD-performance one. Finally, the research also showed the moderator influence of OCD in the performance of emergent strategy. Another finding is the strong negative influence of control in the development of emergent strategy. While these results provide interesting new insights, a continued research effort is needed for a greater understanding of the cultural environment-strategy-performance relationship and it is hoped that this research, will serve as a useful framework for future studies.

APPENDIX A

NATIONAL CULTURE DISTANCE AND INDUSTRIES

Table 24 : Countries Represented in the Sample and their Scores on Cultural Dimensions and National Culture Distance from Canada

Country	Frequency	%	PD	UA	MAS	IND	NCD
France	10	23.3	68	86	43	71	25.53
Japan	10	23.3	54	92	95	46	59.96
Germany	9	20.9	35	65	66	67	7.6
England	11	25.6	35	35	66	89	5.47
USA	3	6.9	40	46	62	91	2.65
TOTAL	43	100					

Table 25 : National Culture Dimensions of Canada

Country	PD	UA	MAS	IND
Canada	39	48	52	80

Source: Hofstede (2001)

Table 26 : Industries Represented in the Sample

Industry		Frequency	%
Manufacturing	Automotive parts	3	6.9
	Aerospace parts	2	4.6
	Tools	2	4.6
	Furniture	1	2.3
	Security industry	1	2.3
	Construction	1	2.3
	Mining	3	6.9
	Oil & gas	3	6.9
	Consumer products	2	4.6
	Pharmaceutical	2	4.6
	Electronics	4	9.3
Total manufacturing		24	56
Service	Retail trade	1	2.3
	Media entertainment	2	4.6
	Video games	1	2.3
	Logistics	1	2.3
	Foodservices	3	6.9
	Facilities management	1	2.3
	Healthcare	1	2.3
	Oilfield services	2	4.6
	Wholesale trading	2	4.6
	Financial services	4	9.3
	Telecommunications	1	2.3
Total Services		19	44
TOTAL		43	100

APPENDIX B

STATISTICAL RESULTS

B.1 RESULTS SPEARMAN CORRELATION

Table 27 : Spearman Correlation Coefficient for Subsidiaries (3 years or more of operation)

n=40 (94%)	1	2	3	4	5
OCD	1				
NCD	0.392**	1			
SP	-0.278*	-0.052	1		
SPP	0.065	0.136	0.169	1	
DSE	-0.044	-0.106	0.037	0.100	1

*** P < 0.01; ** P < 0.05; * P < 0.10, two-tailed significance tests

Table 28 : Spearman Correlation Coefficient for Dimensions of OCD and Performance

n=43	1	2	3	4	5	6	7
Process- results	1						
Employee- job	0.454***	1					
Parochial- professional	-0.348**	0.301**	1				
Open-closed	0.549***	0.503***	0.307**	1			
Loose-tight	0.259*	0.221	0.396***	0.413***	1		
Normative- pragmatic	0.485***	0.494***	0.436***	0.726***	0.527***	1	
Performance	-0.149	-0.132	-0.024	-0.533***	-0.285*	-0.231	1

*** P < 0.01; ** P < 0.05; * P < 0.10, two-tailed significance tests

B.2 CONFIRMATORY FACTOR ANALYSIS

Table 29 : Confirmatory Factor Analysis of OCD

Factor and Items	Factor Loadings (Lambdas)
Process vs. Result dimension	
Mistakes are tolerated	0.73
Typical employee takes initiative	0.53
Try to be pioneers.	0.28
Employee vs. Job dimension	
Decisions are centralized at top	0.62
There is little concern for personal problems of employees	0.78
Important decisions made by individuals	0.81
Parochial vs. Professional dimension	
Strongly aware of competition	0.46
Cooperation and trust between departments is normal	0.56
Think (plan) three years ahead or more	0.61
Open vs. Closed dimension	
Only specific kinds of people fit in the organization	0.48
Organization is closed and secretive	1.06
New employees need more than a year to feel at home	0.71
Loose vs. Tight control dimension	
Everybody is cost-conscious	0.63
Meeting times are kept punctually	0.65
Employees always speak seriously of organization and job	0.63
Normative vs. Pragmatic dimension	
Employees tend to be pragmatic in matters of ethics	0.56
Major emphasis is on meeting customer needs	0.87
Results are more important than procedures	0.77
Goodness-of-fit indexes	
Chi-square (df)	144.12 (120)
P<	0.001
NNFI	0.85
CFI	0.88
RMSEA	0.85

The Chi-square for the null model from which the relevant statistics were calculated is 361.64 with 153 degrees of freedom. Method used is SAS (Version 9.2) CALIS Procedure.

B.2 RESULTS OF REGRESSION ANALYSIS FOR HYPOTHESIS 1a (LARGE SUBSIDIARIES)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741 ^a	.549	.452	.61960
a. Predictors: (Constant), OCDxDSE, DSE, OCD				
b. Dependent Variable: newperformance				

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.911	2.797		3.901	.002
	DSE	-1.450	.996	-1.131	-1.456	.167
	OCD	-2.997	1.223	-2.174	-2.451	.028
	OCDxDSE	.807	.442	2.004	1.827	.089

Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.077	18	.200*	.981	18	.960

a. Lilliefors Significance Correction

B.3 DETERMINING SIGNIFICANCE OF SLOPES FOR HYPOTHESIS 1a

Table 30 : Conditional Effect of Focal Predictor at Values of the Moderator Variable

Outcome variable: SP

Moderator variable: OCD

Focal predictor variable: DSE

Interact is defined as: DSE x OCD

OCD	b	se	t	p
1.7122	-0.0702	0.3136	-0.2239	0.8261
2.3194	0.4224	0.2382	1.7731	0.0980
2.9266	0.9150	0.3986	2.2955	0.0600

Alpha level used for confidence intervals: 0.05

**Table 31 : Conditional Effect of Focal Predictor at Values of Moderator Variable
(Johnson-Neyman method)**

OCD	p
1.2200	0.3517
1.3395	0.4130
1.4590	0.4995
1.5785	0.6236
1.6980	0.8007
1.8175	0.9582
1.9370	0.6696
2.0565	0.3964
2.1760	0.2075
2.2955	0.1097
2.4150	0.0668
2.5345	0.0488
2.6540	0.0412
2.7735	0.0383
2.8930	0.0376
3.0125	0.0381
3.1320	0.0391
3.2515	0.0405
3.3710	0.0420
3.4905	0.0435
3.6100	0.0450

Alpha level used for Johnson-Neyman method and confidence intervals: 0.05

B.4 RESULTS OF REGRESSION ANALYSIS FOR HYPOTHESIS 3a

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.334 ^a	.111	.090	.80539

a. Predictors: (Constant), Average.OCD

b. Dependent Variable: newperformance

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.832	.493		11.822	.000
	Average.OCD	-.450	.199	-.334	-2.267	.029

a. Dependent Variable: newperformance

Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.098	43	.200*	.948	43	.052

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

B.5 RESULTS OF REGRESSION ANALYSIS FOR HYPOTHESIS 3a (LARGE SUBSIDIARIES)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617a	.380	.342	.67922

a. Predictors: (Constant), OCD

b. Dependent Variable: newperformance

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.530	1	4.530	9.818	.006a
	Residual	7.382	16	.461		
	Total	11.911	17			

a. Predictors: (Constant), OCD

b. Dependent Variable: newperformance

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.950	.649		10.703	.000
	OCD	-.850	.271	-.617	-3.133	.006

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6.950	.649		10.703	.000
OCD	-.850	.271	-.617	-3.133	.006

a. Dependent Variable: newperformance

Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.130	18	.200*	.951	18	.445

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

APPENDIX C

SURVEY MODEL

C.1 SAMPLE e-MAIL OF INVITATION TO THE SUBSIDIARY FIRM

Mr. Respondent, President AAAA Canada Inc.:

Please allow me to introduce myself. My name is Miguel Nonaka, doctoral candidate in International Business Management at UQAM (Université du Québec à Montréal). As you are probably aware, a research project is a required component of the doctoral degree and I have undertaken mine under the supervision of Dr. Prosper Bernard, professor of management at UQAM.

Subject of the thesis

I am researching the intriguing question of strategy formation and cultural differences influencing on the performance of the subsidiary firm. More particularly the subsidiary firms in question are ones operating in Canada

Invitation to participate

I am inviting you to participate in this research project in your quality as manager of the subsidiary of a foreign multinational firm operating in Canada. This places you in a position to provide us with valuable information. Please be assured that a minimum amount of your time will be required to participate in this valuable research project. As an incentive, all respondents who participate will receive a copy of the final report.

Who can participate in the survey

We propose to send a survey to one manager for each subsidiary firm, those who are most in contact with the parent firm. The average response time for the survey should be 15 minutes.

How this information will be used

The research results will serve to identify the effects of strategy-making modes on the performance of the subsidiary, and the effects of cultural differences on that relationship. Through your participation, these results will be useful for multinationals operating in Canada and I will share my results by publishing them in a management journal.

Confidentiality

Your responses will be held strictly confidential. Only anonymous summary data from all survey participants will be included in the final report. No information permitting the identification of any organization or any respondent will be released. We hereby promise not to share any information that identifies you with anyone outside the research group, which consists of my supervisor and me.

Invitation to participate

We request your participation in this survey by opening the following link:
http://www.surveymonkey.com/s.aspx?sm=dg_2bU5BL6xcr1IIVC_2f78bgQ_3d_3d

If you have any questions or concerns about the survey please do not hesitate to contact me at: 514.488.4938, or by email at:

nonaka_ulloa.miguel_angel@courrier.uqam.ca

On behalf of my supervisor and myself, thank you very much for your participation.

Sincerely,

Miguel Nonaka

Doctoral Candidate

Université du Québec à Montréal, École de Gestion

C.2 SAMPLE COVER LETTER TO SUBSIDIARY FIRMS

Dear Mr. Respondant, President and CEO, AAA Canada Inc.:

Please allow me to introduce myself. My name is Miguel Nonaka, doctoral candidate in International Management at UQAM (Université du Québec à Montréal). We are involved in a large research project that is studying how the cultural differences between parent and subsidiary firms influence the performance of the two forms (planning and emergent) of strategy formation in the subsidiary firm. This research is part of the requirements for my doctoral thesis that I have undertaken under the supervision of Dr. Prosper Bernard, Professor of Management of the School of Business at UQAM.

We would be very grateful if you would be willing to take fifteen minutes to fill out the attached questionnaire which focuses on cultural differences and strategy formation. Your participation is particularly important since we need to obtain responses about these cultural differences from managers who are in contact continuous contact with the parent firm. However your participation in the study is totally voluntary. We are happy to keep your responses anonymous if that is what you would like us to. Your responses will be held strictly confidential. Only anonymous summary data from all survey participants will be included in the final report. No information permitting the identification of any organization or any respondent will be released. We hereby promise not to share any information that identifies you with anyone outside the research group, which consists of my supervisor and me. Further, you are free to skip any question that you do not wish to answer. In addition, if you fill out the attached questionnaire, we will send you a summary of our findings prior publication.

Thank you very much for your help with this project. If you have any questions, please do not hesitate to contact me.

Yours truly,

C.3 LETTER OF INTRODUCTION FROM Dr. PROSPER BERNARD

March 15, 2008

To Whom It May Concern:

Miguel Nonaka is doing an important research that can help very much companies involved in international issues.

I am asking you to participate so that the results can be important.

If you cannot or if you have any questions just call me at 514-910-2085 or by email at prosper1@compuserve.com

Yours support is appreciated.

Sincerely yours,

Prosper Bernard, PhD

Professor

C.4 SUBSIDIARY QUESTIONNAIRE

This questionnaire is part of a research project on subsidiaries conducted at the École de Gestion, Université du Québec à Montréal, to learn about the influence of cultural differences between subsidiary and foreign parent firms, in the strategy formation and the performance of Canadian-owned subsidiary firms. There are no right or wrong answers. I wish to express my thanks to you for taking the time to fill out this survey. Your input is sincerely appreciated.

ORGANIZATIONAL CULTURE DISTANCE QUERY SECTION

This section asks a number of questions to determine the extent to which the organizational culture of the subsidiary is distant from that of the parent. When answering these questions,

think of your subsidiary as a whole, separate from the parent firm's whole, and compare the way things are usually done in both firms.

DIRECTIONS: Please circle the best response where:

1 = very small difference 2 = small difference 3 = medium difference
4 = great difference 5 = very great difference.

Compare the reaction in both firms in the following dimensions:

1. Process vs. Result dimension

Mistakes are tolerated

2 3 4 5

Typical employee takes initiative

2 3 4 5

Try to be pioneers.

1 2 3 4 5

2. Employee vs. Job dimension

Decisions are centralized at top

1 2 3 4 5

There is little concern for personal problems of employees

1 2 3 4 5

Important decisions made by individuals

1 2 3 4 5

3. Parochial vs. Professional dimension

Strongly aware of competition

1 2 3 4 5

Cooperation and trust between departments is normal

1 2 3 4 5

Think (plan) three years ahead or more

1 2 3 4 5

4. Open vs. Closed dimension

Only specific kinds of people fit in the organization

1 2 3 4 5

Organization is closed and secretive

1 2 3 4 5

New employees need more than a year to feel at home

1 2 3 4 5

5. Loose vs. Tight control dimension

Everybody is cost-conscious

1 2 3 4 5

Meeting times are kept punctually

1 2 3 4 5

Employees always speak seriously of organization and job

1 2 3 4 5

6. Normative vs. Pragmatic dimension

Employees tend to be pragmatic in matters of ethics

1 2 3 4 5

Major emphasis is on meeting customer needs

1 2 3 4 5

Results are more important than procedures

1 2 3 4 5

STRATEGY FORMATION QUERY SECTION

This section asks several questions about your firm's strategy formation process. When answering these questions, think of your organization as a whole and the way that things are usually done.

DIRECTIONS: Please circle the best response where:

1 = strongly disagree

2 = disagree

3 = undecided

4 = agree

5 = strongly agree

1. Your firm's strategy formation process

The organization puts high emphasis on the development of a mission statement

1 2 3 4 5

The organization puts high emphasis on annual goals

1 2 3 4 5

The organization puts high emphasis on short-term action plans

1 2 3 4 5

The organization puts high emphasis on on-going evaluations of strategic objectives

1 2 3 4 5

Managers can start important market activities without top management approving the decision

1 2 3 4 5

Top management does not have to approve new product and service development before they are initiated

1 2 3 4 5

Managers can introduce new practices without the approval from top management

1 2 3 4 5

Approval from top management is not needed before new internal capabilities can be developed.

1 2 3 4 5

PERFORMANCE QUERY SECTION

Comparing the performance of your firm with others in the industry, how would you assess your firm's performance in the following areas. Please mark one response per item.

DIRECTIONS:

Please circle the best response where:

1 = low performer 3 = average 5 = high performance

1. How is your subsidiary's performance in:

a. Overall performance	1	2	3	4	5
b. Sales growth	1	2	3	4	5
c. Market share	1	2	3	4	5
d. Profitability/ROI	1	2	3	4	5
e. Management	1	2	3	4	5
f. New Product Introduction	1	2	3	4	5

2. Could you assess your subsidiary's performance with regard to other firms in the same industry?

Less than 20% of the industry

21-40%

41-60%

61-80%

More than 80% of the industry.

3. How much profit did your subsidiary make last year?

Did not make a profit

\$ 1 to \$100,000

\$ 100,000 to \$1,000,000

\$ 1,000,000 to \$100,000,000

more than \$ 100,000,000

Prefer not to answer.

4. The firm's position compared to close competitors in the industry over the past three years on return on assets:

Bottom 20% of the industry

21-40%

41-60%

61-80%

Top 20% of the industry.

5. The firm's position compared to close competitors in the industry over the past three years on growth in net sales:

Bottom 20% of the industry

21-40%

41-60%

61-80%

Top 20% of the industry.

SUBSIDIARY QUERY SECTION

1. What is the number of your average weekly contacts with the parent firm by phone, fax, or e-mail?

1. 0-3 contacts/weekly

2. 4-7 contacts/weekly

3. 8-12 contacts/weekly

4. 13 or more contacts/weekly

5. Unknown

2. What is the nationality of your current contact in your parent firm?

3. How many executives from this subsidiary are in contact with the parent firm?

1. 0-1 executive

2. 2-4 executives

3. 5-8 executives

4. 9 or more executives

5. Unknown.

4. How would you describe the decision making authority over strategic planning granted your subsidiary by its parent firm?

1. Very proceduralized

2. Proceduralized

3. Neither flexible nor proceduralized

4. Flexible

5. Very Flexible

6. Unknown

5. How would you describe the decision making authority over daily operations granted your subsidiary by its parent firm?

1. Very proceduralized

2. Proceduralized

3. Neither Flexible nor proceduralized.

4. Flexible.

5. Very Flexible

6. Unknown.

6. What is the home country of your parent organization?

7. What is the primary industry of your parent organization?

8. What is the home country of your subsidiary organization?

9. What is the primary industry of your subsidiary organization?

10. What percentage is the parent organization's participation in the ownership of your subsidiary?

1. No ownership

2. less than 50%

3. 50/50

4. more than 50%

5. 100%

6. Unknown

11. How is the subsidiary constituted?

1. Greenfield Start-up of new entity
2. Partnership/Alliance/Joint Venture
3. Acquisition of existing entity
4. Unknown

12. How many years of operation does the subsidiary have?

1. Less than 1 yr.
2. 1 yr to 2 yrs.
3. 2 yrs to 3 yrs.
4. 3 yrs to 5 yrs.
5. More than 5 years
6. Unknown

13. How many employees does the subsidiary firm have?

1. 1-50 employees
2. 51-100 employees
3. 101-250 employees
4. 251-500 employees
5. 501-1000 employees
6. 1001 or more employees.

14. What is the total number of expatriates working in managerial charges in this subsidiary?

1. 1 expatriate
2. 2-3 expatriates
3. 3-5 expatriates
4. 6 or more expatriates

PERSONAL QUERY SECTION

This information is for statistical comparative goals, all responses are strictly confidential

1. How long have you worked for this subsidiary?

2. How old are you?

1. 30 years or less
2. 31 to 40 years
3. 41 to 50 years
4. 51 to 60 years
5. 61 years or more.

3. What is your gender?

1. Male

2. Female

4. What is your nationality?

5. What are your name, position, and mailing address and the name of your subsidiary?
(Optional answer)

6. May we use your firm's name and actual responses in articles? If the answer to this question is no, we will be happy to keep your responses and your firm's participation in this study totally confidential.

This is the end of the survey.

Thank you for your collaboration. The results of this questionnaire accumulate automatically. You have only to click on Done to register your answer.

C.5 INTERVIEW PROTOCOL

Subsidiary name: _____

Person interviewed: _____

Position: _____

Date: _____

Parent nationality: _____

Subsidiary nationality: _____

The person interviewed is a member of top management of the multinational firm located in Canada, a manager most in contact with the chosen subsidiary.

Explain the intention of the study and the experience that the group participating in the project has on the subject. Assure the confidentiality of the firm name unless prior and explicit permission has been granted. The questions will refer to only one subsidiary, the most important one operating in Canada.

Describe how the subsidiary is constituted.

Why do you think the parent firm decided to enter the Canadian market?

Explain what the subsidiary firm does.

What is the decision-making process in the subsidiary firm?

What is your level of participation in the decision-making of your firm?

What is the level of influence by the parent firm in the strategic planning process of the subsidiary?

Do the medium level managers participate in the strategy formation?

Do you consider that the participation of the medium level managers in the strategy propositions is good for performance? What is its influence?

Describe the organizational culture of your firm.

Describe the organizational culture of the subsidiary firm.

Could you tell us the main differences and similarities that you find in both organizational cultures?

Do you consider that the organizational culture is an important determinant of subsidiary performance?

Is your subsidiary's organizational culture similar to your parent firm's organizational culture?

In which ways is your firm's organizational culture different/similar to the organizational culture of the parent firm?

Do you consider that similarity between the organizational culture of the parent firm is important to obtain a good performance for the subsidiary firm?

Do you consider that differences in organizational culture between parent and subsidiary firms could influence on the emanation of strategic ideas from the middle level managers?

Do you consider that organizational culture differences with your parent firm could harm the implementation of the strategic planning?

Do you consider that the differences in national cultures between subsidiary and parent firms influence the strategic planning process?

Do you have any other comments that you would like to add?

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